Impax Environmental Markets plc
Annual Report and Accounts 2012

IMPAX

The Company's objective is to enable investors to benefit from growth in the markets for cleaner or more efficient delivery of basic services of energy, water and waste. Investments are made predominantly in quoted companies which provide, utilise, implement or advise upon technology-based systems, products or services in environmental markets, particularly those of alternative energy and energy efficiency, water treatment and pollution control, and waste technology and resource management.

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Financial Information Summary

	At 31 December 2012	At 31 December 2011	% change
Net assets	£341.2m	£344.8m	-1.0%
Number of Ordinary Shares in issue[1]	270,770,748	294,734,070	-8.1%
Net asset value ("NAV") per Ordinary Share	126.0p	117.0p	7.7%
NAV per Ordinary Share (excluding current year net revenue)	125.0p	115.9p	7.9%
MSCI World Index[2]			8.2%
MSCI World Small Cap Index[2]			10.5%
FTSE ET50 Index[2]			-0.1%
Ordinary Share price (mid-market)	102.9p	95.8p	7.4%
Ordinary Share price discount to NAV[3]	18.3%	18.1%	n/a

[1]Excluding shares held in Treasury
[2]Capital return in pounds sterling
[3]Calculated using NAV per Ordinary Share including current year net revenue

Further financial information can be found in the financial record on page 36.

Chairman's Statement

Richard Bernays
Chairman

The long term case for investing in environmental markets remains strong and we are regularly reminded of the pressures on our environment. Despite this, investor interest in environmental stocks has waned over the past few years in the face of difficult economic conditions. The consequence of this lack of attention has been that shares of environmental companies, which are best measured by the FTSE ET50 Index, have lagged the performance of the more broadly based indices such as MSCI Word Index and MSCI World Small Cap Index. Not surprisingly, Impax Environmental Markets ("IEM" or the "Company") has also underperformed these global indices. However, over the second half of the year under review, there have been the first signs that investor confidence is finally starting to return to this sector and IEM has outperformed both the FTSE ET50 and the broader MSCI global indices.

Market Developments

The past 12 months have provided several clear reminders of the importance of our relationship with the environment and the validity of the Company's investment hypothesis. In October, Hurricane Sandy devastated parts of the Mid-Atlantic and North Eastern United States, causing damage estimated at over US$70 billion, while the prolonged period of winter flooding in the UK has highlighted the need for investment in solutions to minimise the future impact of extreme weather events. Over recent months air pollution in Beijing and other major Chinese cities has reached record levels.

There has been an increasing recognition by world leaders during 2012 of the need for action on the environment. Following his re-election, President Obama reiterated his commitment to building a greener economy, with notable statements on climate change and further encouragement for the adoption of renewable energy. Several environmental markets, notably those linked to construction and infrastructure spending and to industrial capital expenditure, have benefited from improving economic data in the United States. In China, a smooth leadership transition has led to expectations of increased commitments within the existing five year plan, as a result of which levels of expenditure on environmental projects are expected to accelerate.

Investment Performance

In the half yearly report and accounts, I reported that the Company's net asset value ("NAV") per Ordinary Share had outperformed the FTSE ET50, but underperformed global indices such as the MSCI World Index and the MSCI World Small Cap Index. During the second half, IEM's NAV outperformed global indices as well as the FTSE ET50 Index.

For the 12 months ended 31 December 2012, the Company's NAV per share increased from 116p to 125p, a rise of 7.9%, while the FTSE ET50 Index fell by 0.1% and the MSCI World Index and the MSCI World Small Cap Index (capital returns in pounds sterling) rose 8.2% and 10.5% respectively. During the year, IEM's share price rose to 102.9p from 95.8p, an increase of 7.4%.

Discount

During the year, the discount to NAV at which the Company's Ordinary Shares traded ranged between 14% and 23%, with an average for the year of 19%. Improving performance together with ongoing buy-back activity saw the discount narrow a little, but it closed the year at 18%.

The Board has continued to take proactive steps to control the discount. During the year the Company has bought back 23,963,322 of its own Ordinary Shares at an average discount to NAV of 20%. The buybacks during the year have enhanced the NAV per Ordinary Shares by approximately 2.1p. At 31 December 2012 the Company had a total of 53,738,625 Ordinary Shares held in treasury, equating to 20% of the Ordinary Shares in issue.

Since the year end, a further 10,882,000 Ordinary Shares have been bought back. The level of the discount continues to be a matter of concern to the Board and, despite the buy-backs, it remains at 15%, stubbornly above the level at which we believe the shares should trade. We will therefore continue with our buy back-policy and will be seeking a renewal of our authority to do so at the forthcoming Annual General Meeting ("AGM").

Dividend

The Company's net revenue for the year was £2.6 million, equivalent to 0.9p per share. As a result, the directors are recommending an unchanged dividend for the year ended 31 December 2012 of 0.9p per share (2011: 0.9p). If approved at the Company's AGM this dividend will be paid on 28 May 2013 to shareholders on the register as at the close of business on 26 April 2013. As the primary objective of the Company is capital growth, it should not be assumed that this level of dividend will be paid in future years.

Board of Directors

The Board has continued to plan for Board succession in line with best practice in corporate governance.
On 7 February 2013, we announced the appointment of John Scott as a director. John is a former investment banker and has been chairman and non-executive director of several investment trusts. It is the Board's intention that John will assume the role of Chairman after the Company's AGM in May 2014, when I intend to retire.

Keith Niven and Charles Berry will retire by rotation at the 2013 AGM and will not stand for re-election. The Board would like to thank both Keith and Charles for the valuable insights they have provided to the Company.

Continuation Vote

In accordance with the Articles of Association of the Company, an Ordinary Resolution that the Company continues as an investment trust for a further three year period will be proposed at the forthcoming AGM. The Board continues to believe that IEM offers an attractive opportunity for investors to obtain exposure to environmental markets and recommends that shareholders vote in favour of the resolution.

Amendment to Articles of Association - Dividends

Following changes to the investment trust rules, the Company is no longer required to have a provision in its articles prohibiting the distribution by way of dividend of profits made on the disposal of investments. Accordingly, the Company is putting forward a special resolution at the AGM to remove the prohibition. The directors, however, do not currently intend to declare any dividends in respect of such capital profits.

Outlook

The Company has had a good start to 2013. As at 28 March 2013, the NAV had risen 16.2% since the year end, while the share price had risen by 20.3%. The MSCI World, MSCI World Small Cap and FTSE ET50 indices (capital return in pounds sterling) had risen 14.7%, 17.7% and 14.5% over the same period.

The Board believes that, despite their recent rise, equities represent an attractive investment in comparison to cash and bonds. Sentiment towards environmental markets continues to improve, and Q4 2012 earnings reports and outlook statements from IEM's investee companies have generally been in line with or ahead of expectations. We are therefore positive about the prospects for the Company in the current year and for the future.

Richard Bernays
3 April 2013

Manager's Report

Bruce Jenkyn-Jones

Jon Forster

Despite considerable challenges during the year, including relatively high levels of market volatility, we are pleased by the Company's robust performance in the second half. The issues linked to finite natural resources and inadequate infrastructure continue to build, driving demand worldwide for cleaner, more efficient products and services. We are encouraged by the increasing number and breadth of investment opportunities arising from technology innovation, regulations and corporate activity across environmental markets.

Key Developments and Drivers of Environmental Markets

In 2012, following several years of negative or low growth in developed markets, we began to see numerous signs of rising demand across many of the sectors in which the Company is investing.

Water

The continuing favourable outlook for both the building industry and municipal spending, particularly in the United States, continues to provide a strong positive stimulus for the water sector. Spending and margins have proved resilient as developed countries replace old infrastructure, while in developing markets urbanisation is creating demand for new water supply and sanitation systems.

Water was one of the Company's best performing sectors during the year, and companies manufacturing pumps, valves and related equipment generally delivered good results as their markets grew. Further strict global regulations around water quality are also expected to be positive for investment, and we are confident that these drivers will be maintained in the longer term.

In particular, demand for water-related goods and services to support the extraction of shale gas has continued to expand rapidly. Hydraulic fracturing ("fracking") is highly dependent on both the availability of a plentiful supply of water and effective processes to remove water-borne chemicals post fracking; we have identified several attractive investment opportunities that should benefit from the combination of strong demand growth and tighter environmental regulation. Franklin Electric (US), a supplier of pumps to the shale gas and water sectors, was added to the portfolio during 2012.

Energy Efficiency

Despite strong growth of this subsector of 24% in 2012, holdings exposed to light emitting diode ("LED") markets underperformed in 2012, driven by short term overcapacity of supply and attendant price and margin pressures. However, we remain positive on the outlook for this sector. Policy developments are supportive, with Japan targeting 50% LED penetration of the general lighting market during 2013 and China outlining plans to reach 20% by 2015. In addition, technology costs are falling by approximately 30% a year, creating compelling paybacks for industrial end users of less than one year, and leading to availability of 60 Watt replacement bulbs for residential markets for less than US$10. Phillips, one of the leading manufacturers of LEDs, expects these trends to drive rapid acceleration of global LED lighting market penetration from 8% in 2012 to 45% in 2015, to reach a market of €75-80bn per annum. We added Aixtron (LED machinery, Germany) during the year in anticipation of a new capex cycle in this sector.

Metal Recycling

Metal recycling markets in the United States have been depressed for several years but are now starting to exhibit signs of a return to growth. As sales volumes of new passenger cars in the United States pick up, the number of scrapped vehicles is also rising, improving the availability of supply of material for recyclers. Demand for scrap is also improving, driven by a healthy outlook for growth in China and accelerating infrastructure investment in the region. With the share prices for scrap metal recyclers remaining near multi-year lows, we believe that the subsector is at a turning point and a particularly interesting investment proposition. With this in mind, we added Schnitzer Steel (US) to the portfolio during the year.

Policy and Regulation – US and Europe

2012 saw further tightening of environmental policy globally, resulting in several major positive developments that will have numerous positive impacts. In the United States, the Environment Protection Agency ("EPA") passed an historic fuel efficiency standard for new vehicles of 54.5 miles per US gallon by 2025 (measured across a manufacturer's "fleet"). The European Union's Energy Efficiency Directive, which was ratified in October 2012, requires that the 27 Member States must legislate to ensure that, by 2014, their national energy companies implement energy efficiency measures leading to at least a 1.5% reduction in annual energy use for all customers and the public sector in each country is also required to renovate 3% of buildings "owned and occupied" by central government each year.

Policy and Regulation – Asia Pacific

As part of its new energy policy developed after the Fukushima nuclear accident in 2011, the Japanese government launched a generous renewable energy feed-in tariff, and is considering phasing out all nuclear generation by the 2030s. It also looks set to make green economy investments of up to US$1.6 trillion over the next 20 years. The transition to a new Chinese leadership has been encouraging for national environmental markets, and the implementation of the 12th five year plan (which runs to the end of 2015) must accelerate if ambitious environmental targets and revised renewables targets are to be met.

Performance Contributors and Detractors

Contributors

Water infrastructure stocks continued to perform strongly, driven in particular by the increasing momentum of the construction recovery in the United States and a more positive outlook on municipal spending in the water space. Badger Meter, Watts Water and Franklin Electric (all US) contributed positively to performance.

The energy efficiency subsector performed well overall, reflecting the continuing tightening of standards, the recovery of industrial and construction markets and strong earnings delivery by portfolio holdings. Performance was strong in industrial energy efficiency, reflecting attractive commercial propositions and industrial end customers' appetite to reduce operating costs. Regal Beloit (US), Vacon (Finland) and Spirax Sarco (UK) were all material contributors.

Mergers and acquisitions contributed significantly to performance, and last year we witnessed an upsurge of activity across our markets. Unlike previous years, in which the contribution came from portfolio holdings being acquired, in 2012 it resulted from holdings using their strong balance sheets to make substantial and strategic acquisitions. These acquisitions were substantially earnings accretive and this consolidation across all geographies is leading to larger well-managed and attractive companies. Pentair (water infrastructure, US), Kingspan (insulation, Ireland), and Clean Harbors (hazardous waste, US) all contributed on this basis.

IEM has a number of micro-cap holdings (defined as companies with market capitalisations of less than £100 million), which differentiates the Company from most of its peers. These also contributed materially to performance in 2012. Regenesis (electronic goods repair and recycling, UK) completed its turnaround and accelerated growth organically and via acquisition. Porvair (filtration, UK) also delivered strongly on earnings growth, achieving multiple earnings upgrades during the year.

Detractors

The renewable energy subsector was the principal detractor from performance during 2012. The Company maintained a significant underweight position compared to the FTSE ET50 but this subsector still subtracted approximately 3% from IEM's absolute performance. Weakness was broadly spread across wind and solar original equipment manufacturers ("OEMs") and independent power producers ("IPPs"). Regulatory uncertainty was partly to blame, with the Spanish Government following through on threats to implement retroactive cuts to subsidies for existing projects, impacting EDP Renovaveis and Abengoa (both renewable energy IPPs). In addition, significant overcapacity in wind and solar markets led to pricing and margin pressure, deteriorating balance sheets and weakness in Trina Solar and 5 N Plus (both solar OEMs) and in Vestas (wind turbine manufacturer, Denmark). While we remain cautious on renewables in the near term, we retain our positive long term view. This reflects a changing global energy mix towards gas (which is complementary to renewables), falling technology costs that are opening up new and unsubsidised markets, and early signs of consolidation of overcapacity.

The LED market was weak due to short term overcapacity, impacting in particular Epistar (Taiwan) and Aixtron (Germany). Asian markets lagged overall, despite producing the single best contributor to performance in Lee & Man (value added waste processor, China). The unlisted holdings suffered write-downs and are discussed below.

Manager's Report continued

Portfolio Activity and Current Structure

The portfolio remains well diversified by both subsector and geography. At the year end the Company had 73 listed or quoted holdings and 5 investments in unquoted companies, reflecting a balance of defensive and cyclical investments. We continue to focus on companies with reasonable valuations, attractive business models, proven management teams, strong balance sheets and high returns on equity. We maintain our positive bias towards energy efficiency, water infrastructure and pollution control and low absolute and relative weightings in renewables.

Unquoted companies

At 31 December 2012, the value of the Company's investments in unquoted companies was £11.5m, representing 3.2% of the portfolio. Movements in the year were as follows:

	£m
Valuation at 1 January 2012	14.2
Additional investments net of recoveries	0.0
Net valuation and FX changes	(2.7)
Valuation at 31 December 2012	11.5

During the year, a valuation uplift of £1.1m on one holding was offset by downgrades in three other holdings totalling in aggregate £3.8m to give a net valuation and FX loss of £2.7m.

Ensyn made strong progress and, in a fourth quarter private placement, raised US$28 million to develop new production plants. Also in the fourth quarter, we exited New Earth Solutions through an in specie transaction with New Earth Recycling and Renewables (Infrastructure) plc, a specialist fund investing across the full range of New Earth activities and giving us a clearer pathway to future liquidity.

Outlook for 2013

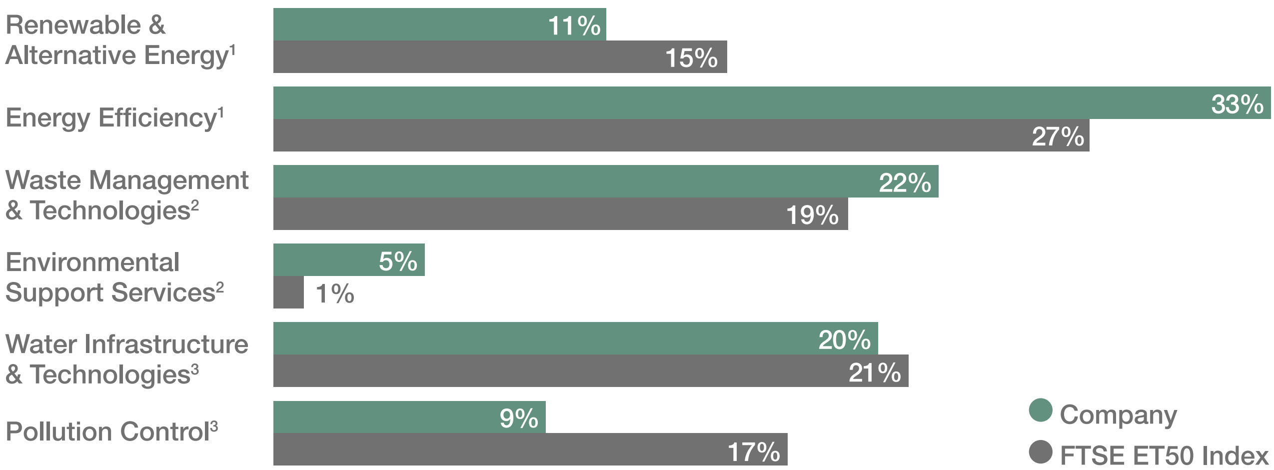
Although equity markets are likely to remain volatile, we are optimistic on the outlook for global equities in general and the Company in particular. We see several strong catalysts for continued performance. From a macroeconomic perspective, accelerating infrastructure investment in China and a recovery of US construction markets are favourable. Looking at the micro developments in environmental markets, we see improving fundamentals in multiple subsectors. With a high quality and well balanced portfolio of holdings, we believe the Company is well positioned to perform in the coming years.

Impax Asset Management Limited
3 April 2013

Structure of the Portfolio

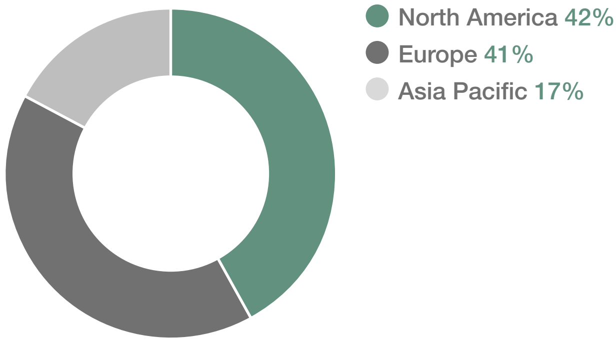
As at 31 December 2012

Breakdown by Environmental Markets Classification System

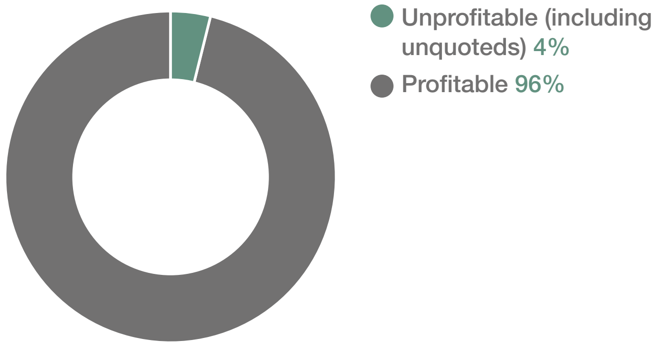


Investment policy classification
[1]Alternative Energy and Energy Efficiency
[2]Waste Technologies and Resource Management
[3]Water Treatment and Pollution Control

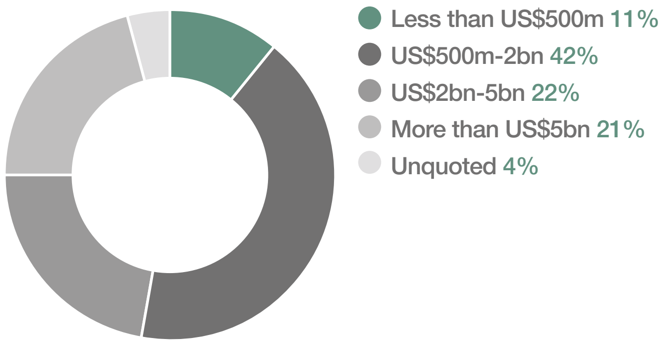
Breakdown by Region



Breakdown by Company Profitability



Breakdown by Market Capitalisation



Ten Largest Investments

As at 31 December 2012

Kingspan

(Ireland) 2.7% of net assets (2011: 2.3%)

Kingspan is an Ireland-based manufacturer of insulated panels and boards, and environmental housing solutions such as solar hot water systems and rainwater harvesting. In 2012 Kingspan acquired ThyssenKrupp Construction Group to improve its market presence in insulated panels in mainland Europe, and Rigidal Industries to increase its platform in the Gulf region. It remains a high quality business that is poised to benefit from increasing regulatory focus on energy efficient buildings.

http://www.kingspan.com

Regal Beloit

(United States) 2.7% (2011: 2.9%)

Regal Beloit is a leading global manufacturer of electric motors, ranging from HVAC (heating, ventilation and air conditioning) motors, electric generators and mechanical motion controls. The company benefits from the increasing emphasis being placed on energy efficiency as a means to reduce greenhouse gas emissions. It stands to benefit in 2013 from improving economies in North America and Asia.

http://www.regal-beloit.com

Watts Water

(United States) 2.6% (2011: 2.1%)

Watts Water is a global manufacturer of products and systems for the control, conservation and quality of water. Its principal product lines are flow control, HVAC, water reuse, and water quality. The company aggressively reduced its cost base during the downturn and is now a beneficiary of the improving US housing market, and continues to grow through acquisitions.

http://www.wattswater.com

NIBE Industrier

(Sweden) 2.6% (2011: 3.6%)

NIBE Industrier provides heating products such as ground source heat pumps, electric heating applications, and wood-burning stoves. It has an excellent track record, generating consistently high returns-on-equity over many years. It is set for continued growth as it expands out of its Nordic home market into larger, less mature European markets such as Germany, France and the UK.

http://www.nibe.com

Vacon

(Finland) 2.6% (2011: 2.0%)

Vacon develops and manufactures energy efficiency alternating current ("AC") drives and renewable energy inverters. It was founded in Western Finland in 1993 and has grown to become a top ten AC drive manufacturer. Although it competes against very large companies such as ABB and Siemens, Vacon has an advantage in that it is the only manufacturer dedicated to AC drives. The market penetration of electric motors remains relatively low so market growth is expected to remain above GDP.

http://www.vacon.com

Clean Harbors

(United States) 2.5% (2011: 3.1%)

Clean Harbors is North America's leading provider of environmental and hazardous waste management services. The company continues to profit from the gradual closure of industrial customers' in-house disposal facilities, which are becoming uneconomical due to their inability to comply with increasingly stringent environmental regulations. The substantial acquisition of SafetyKleen in Q4 2012 positions the company well for future growth.

http://www.cleanharbors.com

Ensyn

(United States) 2.4% (2011: 2.2%)

Ensyn is a second generation biofuels company which extracts bio-oils and value added chemicals from biomass using proven technology based around pyrolysis. The company has strong strategic partnerships with UOP Honeywell and Chevron in the energy sector and Fibria in the forestry space, and is making good progress on executing commercial projects.

http://www.ensyn.com

Spirax-Sarco

(United Kingdom) 2.4% (2011: 2.2%)

Spirax-Sarco provides knowledge, service and products world-wide for the control and efficient use of steam and other industrial fluids. The company benefits from increased focus on process efficiency and energy savings and has invested heavily in research and development to accelerate the flow of new products. It has good margins but these are benefiting further from a consolidation of manufacturing facilities and a restructuring programme. Furthermore, its sales are driven more by maintenance than investment capital expenditures giving it relatively defensive characteristics.

http://www.spiraxsarco.com

LKQ

(United States) 2.4% (2011: 3.4%)

LKQ is the largest provider of recycled and aftermarket vehicle parts in the United States. The company's growth is driven by the increased use of recycled parts that has resulted from insurance companies' desire to reduce costs of collision repair. LKQ occupies a dominant market position in the US with high barriers to entry and pricing power. The company's 2011 acquisition of Euro Car Parts, the UK's largest automotive aftermarket products distributor, provides the platform for growth in the European market.

http://www.lkqcorp.com

Pall Corp

(United States) 2.4% (2011: 3.5%)

Pall Corp is a filtration and fluid management specialist. It is the largest participant in the filtration/separations industry by revenue, focusing on high value-added niche markets. The company is executing its current strategic plan to increase margins successfully and has an attractive defensive business model with c.75% of its sales from consumable filters that need to be replaced regularly. In addition, Pall Corp is a potential merger & acquisition target among the US industrial peer group.

http://www.pall.com

Details of Individual Holdings

As at 31 December 2012

Company	Sector	Country	Holding	Current value £'000	% of Total Net Assets
Kingspan	Energy Efficiency	Ireland	1,389,807	9,220	2.7%
Regal Beloit	Energy Efficiency	United States	209,212	9,080	2.7%
Watts Water	Water Infrastructure & Technologies	United States	339,154	8,977	2.6%
NIBE Industrier	Energy Efficiency	Sweden	997,671	8,779	2.6%
Vacon	Energy Efficiency	Finland	267,527	8,738	2.6%
Clean Harbors	Waste Management & Technologies	United States	253,920	8,595	2.5%
Ensyn[1]	Renewable & Alternative Energy	United States	382,970	8,253	2.4%
Spirax-Sarco	Energy Efficiency	United Kingdom	364,597	8,229	2.4%
LKQ	Waste Management & Technologies	United States	625,520	8,130	2.4%
Pall Corp	Water Infrastructure & Technologies	United States	218,320	8,097	2.4%
Clarcor	Pollution Control	United States	262,834	7,725	2.3%
Itron Inc	Energy Efficiency	United States	271,710	7,453	2.2%
Lee & Man Paper	Waste Management & Technologies	China & Hong Kong	18,232,090	7,050	2.1%
Pentair	Water Infrastructure & Technologies	United States	231,440	7,004	2.1%
Power Integrations	Energy Efficiency	United States	322,301	6,667	2.0%
RPS	Environmental Support Services	United Kingdom	3,138,013	6,565	1.9%
Tomra Systems	Waste Management & Technologies	Norway	1,193,764	6,557	1.9%
Horiba	Pollution Control	Japan	352,840	6,242	1.8%
Xylem	Water Infrastructure & Technologies	United States	372,230	6,206	1.8%
Rinnai	Energy Efficiency	Japan	132,200	5,488	1.6%
Newalta	Waste Management & Technologies	Canada	562,450	5,387	1.6%
Hollysys Automation	Energy Efficiency	United Kingdom	737,071	5,382	1.6%
Stericycle	Waste Management & Technologies	United States	93,092	5,344	1.6%
Geberit	Water Infrastructure & Technologies	Switzerland	37,570	5,090	1.5%
Ecolab	Water Infrastructure & Technologies	United States	114,426	5,065	1.5%
Top twenty five holdings				179,323	52.8%
Other quoted holdings				154,988	45.4%
Other unquoted holdings				369	0.1%
Total holdings in companies				334,680	98.3%
Cash				6,873	2.0%
Other net assets				(340)	(0.3%)
Grand total				341,213	100.0%

All the above holdings are quoted unless otherwise stated.
[1]Unquoted

The Company also held unquoted warrants in Xebec with nil value as at 31 December 2012.

The Company held the following investments in unquoted companies:

Company	Country	Current value £'000	% of Total Net Assets
Ensyn	United States	8,252	2.4%
New Earth Recycling & Renewable	United Kingdom	2,859	0.7%
Pelamis Wave Power	United Kingdom	369	0.1%
Emergya Wind Technologies	Netherlands	–	–
STE	United Kingdom	–	–
Total		11,480	3.2%

Directors' Report

The directors present their report and accounts for the year ended 31 December 2012.

Business Review

Investment Policy

(i) Objective and policy

The Company's objective is to enable investors to benefit from growth in the markets for cleaner or more efficient delivery of basic services of energy, water and waste. Investments are made predominantly in quoted companies which provide, utilise, implement or advise upon technology-based systems, products or services in environmental markets, particularly those of alternative energy and energy efficiency, water treatment and pollution control, and waste technology and resource management.

(ii) Asset allocation

Investments are selected on an individual basis but each investment is categorised according to three primary environmental markets that are the focus of the Company's investment policy.

Alternative Energy and Energy Efficiency

In the alternative energy and energy efficiency sector, the Company may invest in businesses that are principally, but not exclusively, exposed to the following areas:

- wind turbine manufacturing;
- solar panel manufacturing and integration;
- renewable energy developers and independent power producers;
- biofuels;
- meters, utility software and demand side management;
- industrial energy efficiency;
- buildings energy efficiency;
- transport energy efficiency;
- businesses relating to the trading of carbon and other environmental assets and
- fuel cells, flywheels, superconductors, supercapacitors and other new energy technologies.

As at 31 December 2012, the Company had investments totalling in aggregate £148m by value invested in this sub-sector representing 44% of the Company's portfolio at that time.

Waste Technologies and Resource Management

In the waste technologies and resource management sector, the Company may invest in businesses that are principally, but not exclusively, exposed to the following areas:

- recycling equipment and systems;
- recycling of commodities including metals, plastics, oils, paper and vehicles;
- integrated waste management;
- hazardous waste management and
- environmental consultancy.

As at 31 December 2012, the Company had investments totalling in aggregate £89m by value invested in this sub-sector representing 27% of the Company's portfolio at that time.

Water Treatment and Pollution Control

In the water treatment and pollution control sector, the Company may invest in businesses that are principally, but not exclusively, exposed to the following areas:

- water treatment technologies involved in filtration, purification and separation;
- water infrastructure including pumps, valves and actuators;
- environmental sensing, testing and monitoring and
- air pollution control technologies.

As at 31 December 2012, the Company had investments totalling in aggregate £98m by value invested in this sub-sector representing 29% of the Company's portfolio at that time.

(iii) Risk diversification

The Company has the following maximum exposures in place in order to ensure that there is a reasonable diversification of risk in the Company's portfolio:

(a) Not more than 10% of the Company's Net Asset Value will be invested in any one company at the time of investment.
(b) The Company will not make an investment if as a consequence of that investment individual holdings of five per cent or more would in aggregate represent more than 40% of NAV.

The Company did not exceed either of the above maximum exposures during the year ended 31 December 2012. The Company held investments in 73 quoted companies as at 31 December 2012, the largest one being Kingspan which represented 2.7% of net assets at that time.

The Company does not have prescriptive limits on the maximum amounts that can be invested in the sub-sectors listed above. The directors believe that the imposition of such limits could impact on efficient portfolio management.

To a limited extent, the Company invests in participatory notes providing economic exposure to underlying shares or securities when it is impracticable or not in the best interests of the Company to invest directly in those shares or securities. Participatory notes are equity linked notes issued by a third party broker providing long only exposure to underlying shares or securities. The Board has set a current maximum limit for investment into participatory notes at 5% of net assets, subject to a further limit of 2% of net assets per broker (both limits at time of investment).

(iv) Gearing

The Board has authorised the Manager to utilise short-term borrowings of up to 10% of net assets in order to provide liquidity for efficient portfolio management where the Manager sees fit. While there is no current intention to utilise long-term borrowings, the Company retains the flexibility to do so in appropriate circumstances. Any

Directors' Report continued

long-term borrowings and any borrowings in excess of 10% of net assets would require the separate authorisation of the Board.

The borrowings of the Company shall not at any time, without the previous sanction of an ordinary resolution of the Company, exceed an amount equal to one third of the aggregate of:

(i) the amount paid up on the share capital of the Company; and
(ii) the total of the capital and revenue reserves of the Company, including any share premium account, capital redemption reserve and credit balance on the profit and loss account as shown in the latest audited balance sheet and profit and loss account of the Company subject to certain adjustments detailed in the Company's Articles of Association.

The Company does not presently have any borrowing facilities in place and did not utilise any borrowings during the year ended 31 December 2012.

Objective and Key Performance Indicators ("KPIs")
The Board measures the Company's success in attaining its investment objective by reference to the following KPIs:

(i) Achievement of capital growth over the long term. The Board monitors the net asset value ("NAV") and compares this with the MSCI World Index, FTSE ET50 Index and other indices.
(ii) Maintenance of a reasonable level of discount or premium of share price to diluted NAV.
(iii) Maintenance of reasonable level of ongoing charges.

Quantitative analysis of the above KPIs is shown in the next section below.

Investment performance
The Chairman's statement on pages 2 and 3 incorporates a review of the highlights during the year. The Manager's report on pages 4 to 6 gives details on investments made during the year and how performance has been achieved.

The performance of the Company is shown below:

	Since launch	5 years to 31 Dec 2012	3 years to 31 Dec 2012	1 year to 31 Dec 2012
NAV[1] of the Company	+32.1%[2]	+1.0%[3]	+0.9%[3]	+8.5%
MSCI World Index	+54.0%	+15.4%	+21.5%	+10.7%
MSCI World Small Cap	+133.8%	+38.3%	+33.9%	+12.4%
FTSE ET50	-1.2%	-47.9%	-28.2%	+1.2%
FTSE Environmental Opportunities All-Share	+126.2%	+15.6%	+18.4%	+11.5%
FTSE All-Share Index	+84.0%	+13.2%	+24.2%	+12.3%

Note: Index numbers are net total returns for the MSCI indices and total returns for the FTSE indices, in all cases in sterling terms.
[1]Total return
[2]Based on an opening NAV after share issue expenses of 98.25p per Ordinary Share.
[3]Based on diluted net asset value at 31 December 2007 and 31 December 2009.

The Company's shares traded at an average discount to NAV of 20% during the year ended 31 December 2012 and within a range of 14% to 23%. The year end discount to NAV was 18%.

Based on the Company's average net assets during the year ended 31 December 2012, the Company's ongoing charges figure calculated in accordance with the AIC methodology was 1.16% (2011: 1.14%).

Results and Dividend
The Company's revenue return after tax for the year amounted to £2,637,000 (2011: £3,136,000). The directors expect the Company normally to generate returns in the form of capital gains rather than revenue. In order to meet the investment trust qualifying requirements, the directors are proposing that the Company will pay a final dividend of 0.9p per Ordinary Share (2011: 0.9p per Ordinary Share) absorbing £2,338,999 (2011: £2,614,185) based on the Ordinary Shares in issue (excluding shares held in Treasury) at the date of this report. It should not be assumed that this level of revenue return or dividend will be repeated in future years. If approved at the Annual General Meeting, the final dividend will be paid on 28 May 2013 to shareholders on the register at the close of business on 26 April 2013.

The Company made a capital return after tax of £19,715,000 (2011: £85,240,000, loss). Therefore the total return after tax for the Company was £22,352,000 (2011: £82,104,000, loss).

Principal Risks and Uncertainties
The Board considers that the principal risks and uncertainties faced by the Company fall into the following main categories.

(i) Market risks
Price movements of the Company's investments are highly correlated to performance of global equities in general and small and mid-cap equities in particular. Consequently falls in stock markets are likely to negatively affect the performance of the Company's investments.

The Company invests in companies with small market capitalisations, which are likely to be subject to higher valuation uncertainties and liquidity risks than larger capitalisation securities. The Company also invests in unquoted securities which generally have higher valuation uncertainties and liquidity risks than securities listed or traded on a regulated market.

The Company invests in securities which are not denominated or quoted in sterling. Movements of exchange rates between sterling and other currencies in which the Company's investments are denominated may have an unfavourable effect on the return on the investments made by the Company.

There are inherent risks involved in stock selection. The Manager is experienced and employs its expertise in selecting the stocks in which the Company invests. The Manager spreads the investment risk over a wide portfolio of investments in three main sectors and at the year end the Company held investments in 73 quoted companies plus 5 unquoted companies. The Company will not normally hedge against foreign currency movements affecting the value of its investments, but the Manager takes account of this risk when making investment decisions.

Further detail on the financial implications of market risk is provided in note 15 to the accounts.

(ii) Environmental Markets
The Company invests in companies in Environmental Markets. Such companies carry risks that government liberalisation may not occur as expected, costs of technology may not fall, capital spending by their customers is reduced or deferred and their products or services are not adopted.

(iii) Corporate governance and internal control risks
The main risk areas are poor allocation of the Company's assets by the Manager, poor governance by the Board and poor compliance or administration including the loss of investment trust status which may lead to the Company being subject to tax on any gains on the disposal of its investments. These factors could potentially result in unacceptable returns for shareholders.

The control of risks related to the Company's business areas is described in detail in the corporate governance report on pages 16 to 19.

Outlook
The outlook for the Company is discussed in the Chairman's Statement on page 3.

Other Information

Legal and Taxation Status
The Company is an investment company within the meaning of Section 833 of the Companies Act 2006.

The Company conducts its affairs in order to meet the requirements for approval as an investment trust under section 1158 of the Corporation Tax Act 2010. The Company has received approval of investment trust status for the year ended 31 December 2011. A new investment trust approval process is in place for accounting periods beginning on or after 1 January 2012 pursuant to which a single initial approval is sought and then eligibility conditions and ongoing requirements must be met in order for investment trust status to be maintained. The Company's initial application has been made and accepted by HM Revenue & Customs. In the opinion of the directors, the Company has met the conditions and requirements for approval as an investment trust for the year ended 31 December 2012.

Amendment to Articles of Association – Dividends
Following the introduction of the Investment Trust (Approved Company) (Tax) Regulations 2011, investment trusts, such as the Company, are no longer required to have a provision in their articles prohibiting the distribution by way of dividend of profits made on the disposal of investments. Accordingly, the Company is putting forward a special resolution at the Annual General Meeting to remove the prohibition. The directors, however, do not currently intend to declare any dividends in respect of such capital profits.

Share Issues
The authority to issue new shares for cash granted at the Annual General Meeting held on 17 May 2012 will expire at the conclusion of the forthcoming Annual General Meeting. The Board recommends that the Company is granted a new authority to issue up to a maximum of 25,962,880 Ordinary Shares (representing approximately 9.99% of the shares in issue, excluding Treasury Shares, at the date of this document) and to disapply pre-emption rights when issuing those Ordinary Shares. Resolutions to this effect will be put to shareholders at the Annual General Meeting. The maximum number of Ordinary Shares which can be admitted to trading on the London Stock Exchange without the publication of a prospectus is 10% of the Ordinary Share Capital on a rolling previous 12 month basis at the time of admission of the shares.

Renewal of Authority to Purchase Own Shares
During the year ended 31 December 2012 the Company purchased 23,963,322 of its own Ordinary Shares and since the year end a further 10,882,000 Ordinary Shares have been bought back. These shares were purchased at a discount to net asset value and are being held in Treasury.

The authority for the Company to purchase its own shares granted by the Annual General Meeting held on 17 May 2012 will expire at the conclusion of the forthcoming Annual General Meeting. The directors recommend that a new authority to purchase up to 38,957,323 Ordinary Shares (subject to the condition that not more than 14.99% of the Ordinary Shares in issue, excluding Treasury Shares, at the date of the Annual General Meeting are purchased) is granted and a resolution to that effect will be put to the Annual General Meeting.

Any Ordinary Shares purchased will either be cancelled or, if the directors so determine, held in Treasury.

Policy on Sale of Treasury Shares
Any Ordinary Shares held in Treasury will not be sold at less than net asset value.

Continuation Vote
The Articles of Association require that an ordinary resolution be proposed at every third Annual General Meeting of the Company that the Company should continue as an investment trust for a further three year period. A vote for the continuation of the company will be proposed at the forthcoming Annual General Meeting. In the event that such

Directors' Report continued

a resolution is not passed, the directors are required to draw up proposals for Shareholders' approval for the voluntary liquidation or unitisation or other reorganisation of the Company, which would require a special resolution of Shareholders.

Market Information
The Company's share capital is listed on the London Stock Exchange. The market price is shown daily in the Financial Times. The NAV per share is calculated in sterling for each business day that the London Stock Exchange is open for business. The daily NAV per share is published through a regulatory information service.

Banking Arrangements
Lloyds TSB Bank plc was the Company's banker throughout the year.

The Company does not presently have any borrowing facilities in place and did not utilise any borrowings during the year.

Custody
Custody of the Company's investments was contracted to The Northern Trust Company throughout the year.

Directors' Holdings
At 31 December 2012 and at the date of this report the directors had the following holdings in the Company. All holdings were beneficially owned.

	Ordinary Shares At 31 December 2012 and at the date of this report	Ordinary Shares At 1 January 2012
R Bernays	28,664	28,664
C Berry	7,500	7,500
J Le Blan	5,000	–
K Niven	23,842	23,842
W Rickett	5,000	5,000
J Scott (appointed 7 February 2013)	–	–

Management
Since its launch the management of the Company's investments has been contracted to Impax Asset Management Limited ("IAM"), which is regulated by the Financial Services Authority.

The Manager is appointed under a contract subject to twelve months' notice.

The Manager is entitled to remuneration each month at a rate equivalent to one twelfth of one per cent on the net assets up to and including £200 million; plus one twelfth of 0.9 per cent on the net assets in excess of £200 million and up to £300 million; plus one twelfth of 0.825 per cent on the net assets in excess of £300 million and up to £400 million; plus one twelfth of 0.8 per cent on net assets in excess of £400 million.

Management Engagement
In accordance with the Listing Rules, the Board confirms that it has reviewed whether to retain IAM as the Manager of the Company. It has been concluded that, given the Manager's depth of knowledge in the sector and the overall performance of the Company within the environmental sector, it is in the best interests of shareholders as a whole to continue with IAM's engagement.

Company Secretary And Administrator
Cavendish Administration Limited ("Cavendish") was the secretary of the Company for the entire year under review. Cavendish is also responsible for all administrative matters.

Payment Of Suppliers
It is the Company's payment policy to obtain the best possible terms for all business and therefore there is no consistent policy as to the terms used. The Company agrees with its suppliers the terms on which business will take place and abides by such terms; a high proportion of expenses, including management and administration fees, are paid within the month when invoiced. There were no invoices from trade creditors outstanding at 31 December 2012 (2011: £nil).

Capital structure and voting rights
At the year end the Company's issued share capital comprised 324,509,373 Ordinary Shares of 10p nominal value. Of these shares 53,738,625 were held in Treasury. Each Ordinary Share held entitles the holder to one vote. However, Ordinary Shares held in Treasury do not hold voting rights. All shares, excluding those held in Treasury, carry equal voting rights and there are no restrictions on those voting rights. Voting deadlines are stated in the Notice of Meeting and Form of Proxy and are in accordance with the Companies Act 2006.

Since the year end, the Company has purchased 10,882,000 of its own Ordinary Shares. These shares are held in Treasury and as such do not carry voting rights.

There are no restrictions on the transfer of Shares nor are there any limitations or special rights associated with the Ordinary Shares.

Significant Shareholders
The directors have been notified of, or have identified, as at 31 December 2012, the following shareholdings comprising 3 per cent or more of the issued share capital (excluding Treasury Shares) of the Company:

	Holding	%
Universities Superannuation Scheme	30,463,120	11.3
Newton Investment Management Limited	20,350,851	7.5
AEGON UK Group of Companies	16,745,494	6.2
East Riding of Yorkshire Council	14,928,369	5.5
Rathbone Brothers plc	14,136,921	5.2
Church Commissioners for England	11,051,666	4.1
Legal & General Investment Management Limited	9,310,772	3.4

There have been no significant changes to the above holdings reported since the year end.

Settlement Of Ordinary Share Transactions
Ordinary share transactions in the Company are settled by the CREST share settlement system.

Donations
The Company did not make any donations during the year under review.

Anti-Bribery And Corruption
It is the Company's policy to conduct all of its business in an honest and ethical manner. The Company takes a zero-tolerance approach to bribery and corruption and is committed to acting professionally, fairly and with integrity in all its business dealings and relationships wherever it operates. The Company's policy and the procedures that implement it are designed to support that commitment.

Notice of General Meetings
Resolution 14 in the notice to the Annual General Meeting is required to reflect the requirements of the Shareholder Rights Directive. The regulations in this Directive have generally increased the notice period for general meetings to 21 days. The Company is currently able to call General Meetings, other than an Annual General Meeting, on 14 clear days' notice and would like to preserve this ability. In order to be able to do so, shareholders must have approved the calling of meetings on 14 days' notice.

Resolution 14 seeks such approval. The approval would be effective until the Company's next Annual General Meeting, when it is intended that a similar resolution will be proposed. The Company will ensure that it offers the facility for shareholders to vote by electronic means, and that this facility is accessible to all shareholders, if it is to call general meetings on 14 days' notice.

Corporate Governance
The Corporate Governance statement on pages 16 to 19 forms part of this report.

Going Concern
The directors have adopted the going concern basis in preparing the accounts. The following is a summary of the directors' assessment of the going concern status of the Company.

Operational resources

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for at least twelve months from the date of this document. In reaching this conclusion, the directors have considered the liquidity of the Company's portfolio of investments as well as its cash position, income and expense flows. As at 31 December 2012, the Company held £6.9m in cash and £323.2m in quoted investments. It is estimated that approximately 84% by value of the quoted investments held at the year end could be realised in one month under normal market conditions. The total expenses (excluding taxation) for the year ended 31 December 2012 were £4.0m, which represented approximately 1.16% of average net assets during the year. At the date of approval of this document, based on the aggregate of investments and cash held, the Company has substantial operating expenses cover. The Company's net assets at 28 March 2013 were £381m.

Continuation vote

The Company will put forward a resolution for its continuation at the Annual General Meeting. The Directors recommend that shareholders vote in favour of the resolution.

Auditor Information
Each of the directors at the date of the approval of this report confirms that:

(i) So far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and

(ii) The director has taken all steps that he ought to have taken as director to make himself aware of any relevant information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

In accordance with Section 489 of the Companies Act 2006, a resolution to re-appoint Ernst & Young LLP as the Company's auditors will be put forward at the forthcoming Annual General Meeting.

By order of the Board
Anthony Lee
For and on behalf of
Cavendish Administration Limited
Company Secretary

3 April 2013

Corporate Governance

Introduction

This Corporate Governance statement forms part of the Directors' Report.

The Board has considered the principles and recommendations of the AIC Code of Corporate Governance ("AIC Code") by reference to the AIC Corporate Governance Guide for Investment Companies ("AIC Guide") as issued in October 2010. The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the UK Corporate Governance Code ("UK Code") as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company.

The Board considers that reporting against the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the UK Corporate Governance Code), will provide better information to shareholders.

The Company has complied with the recommendations of the AIC Code and the relevant provisions of the UK Corporate Governance Code, except as set out below.

The UK Corporate Governance Code includes provisions relating to:

- the role of the chief executive (UK Code provision A.2.1)
- executive directors' remuneration (UK Code various provisions of section D: Remuneration)
- the need for an internal audit function (UK Code provision C.3.5)

For the reasons set out in the AIC Guide, and as explained in the UK Corporate Governance Code, the Board considers these provisions are not relevant to the position of the Company, being an externally managed investment company. The Company has therefore not reported further in respect of these provisions.

The Board

Composition

At the date of this report, the Board consists of six non-executive directors including the Chairman. Mr Bernays and Mr Niven were appointed as directors of the Company upon its incorporation. Mr Berry was appointed by the Board on 1 October 2007. Mrs Le Blan and Mr Rickett were appointed on 27 January 2011. Mr Scott was appointed on 7 February 2013. All the directors have served during the entire period since their appointment. Mr Bernays is Chairman of the Company. Mrs Le Blan has been appointed as the Board's senior independent director.

The Board believes that during the year ended 31 December 2012 its composition was appropriate for an investment company of its nature and size. Dr Arnott stood down as a director at the Annual General Meeting held in May 2012 and Mr Berry and Mr Niven will stand down at the next Annual General Meeting. As noted above, a new director, John Scott, has been appointed since the year end. Mr Bernays intends to retire from the role of Chairman at the Company's Annual General Meeting to be held in May 2014 and it is the Board's intention that Mr Scott will assume the role of Chairman at that time. All of the directors are independent of the investment manager. The directors have a broad range of relevant experience to meet the Company's requirements and their biographies are given below.

Richard Bernays (Chairman) Mr Bernays has been involved in the investment trust industry for many years and has just retired as Chairman of Throgmorton Trust and Gartmore Global Trust and as a director of Charter European Trust. Mr Bernays retired in March 2001 from the post of chief executive of Old Mutual International after 30 years in the financial services industry. Following a number of years in advertising, Richard Bernays joined Mercury Asset Management in 1971 and was responsible for the establishment and development of its unit trust arm from 1975 to 1985. He was vice chairman of Mercury Asset Management from 1987 to 1991 when he left to become chief executive of Hill Samuel Asset Management. He joined Old Mutual International in 1998. He is also a director of WNS Group, a New York Stock Exchange listed company.

Charles Berry Mr Berry is chairman of Drax Group plc and Senior plc. He is also a non-executive director of the Securities Trust of Scotland plc and The Weir Group plc. He is a past chairman of eaga plc, Thus Group plc and from 1999 to 2005 he was a director of ScottishPower plc. Prior to joining ScottishPower in 1991, he was Group Development Director of Norwest Holst, a subsidiary of Compagnie Général des Eaux, and prior to that held management positions within subsidiaries of Pilkington plc. He holds a BSc (First Class Hons) in Electrical Engineering from the University of Glasgow and a Masters Degree in Management from the Massachusetts Institute of Technology.

Julia Le Blan Mrs Le Blan is a chartered accountant and has worked in the financial services industry for over 30 years. She retired from Deloitte in 2009, where she had been a Tax Partner since 1990. During that time, she acted as tax adviser to international financial institutions, including clients in banking, securities and fund management and she led the mergers and acquisitions function for financial services tax. She was also the firm's expert on the taxation of investment trust companies. Mrs Le Blan is a non-executive director of JP Morgan US Smaller Companies Investment Trust plc and Investors Capital Trust plc.

Keith Niven Mr Niven retired from Schroder Investment Management Limited ("SIM") in October 2001. He joined Schroders in 1973 and was appointed a director of SIM, its fund management arm, in 1985. Mr Niven held a number of posts in SIM, becoming joint vice chairman in 2000. He is non-executive chairman of Matrix Income & Growth VCT PLC and a non-executive director of Schroder Income Growth Fund plc. Mr Niven is also an investment adviser to the Rolls-Royce Pension Fund.

William Rickett Mr Rickett was Director General, Energy in the Department of Energy & Climate Change and chairman of the Governing Board of the International Energy Agency until October 2009. He had previously been a Director General in the Department for Transport and in the Cabinet Office. He started his civil service career in the Department of Energy in 1975 and, among other things, led the team privatising the electricity industry from 1987 to 1990. He was Private Secretary to the Prime Minister from 1981 to 1983 and also spent two periods on secondment to the private sector. He is now the chairman of Cambridge Economic Policy Associates Ltd and a director of Eggborough Power Ltd, Helius Energy plc and the National Renewable Energy Centre Ltd. He is also a director of Greencoat UK Wind Plc.

John Scott Mr Scott is a former investment banker who spent 20 years with Lazard and is currently a director of several investment trusts, and has been Chairman of Scottish Mortgage Investment Trust since 2010. Until March 2013 he was Deputy Chairman of Endace Ltd. of New Zealand and in November 2012 he retired after 12 years as a non-executive director of Miller Insurance. Mr Scott was appointed a director on 7 February 2013 and will stand for election to the Board at the Company's forthcoming AGM.

The Board does not believe that the service tenure of non-executive directors should be strictly limited to nine years. The Board recognises the benefits to the Company of having longer serving directors together with progressive refreshment of the Board. Mr Berry and Mr Niven will retire at the Annual General Meeting and will not stand for re-election. Mr Bernays was appointed shortly before the Company's initial launch in February 2002 but the Board does not believe that the current length of service affects the independence of Mr Bernays.

Following the year end, upon the recommendation of the nominations committee, the Board appointed Mr Scott as a director to the Company. A new director search was conducted with the assistance of a third party recruitment consultant. The process included a careful consideration of the future requirements of the Company and the necessary skills and experience required from prospective directors.

In line with the AIC Code, the Board has decided that each director should be subject to annual re-election by shareholders, although this is not required by the Company's Articles of Association. All of the directors with the exception of Mr Berry and Mr Niven will stand for re-election or, in the case of Mr Scott, election.

The Board recommends all the directors for re-election for the reasons highlighted above and in the performance appraisal section of this report.

The directors have appointment letters which do not state any specific term. They are subject to re-election (or, as the case may be, election) by shareholders at a maximum interval of three years. Copies of the directors' appointment letters are available on request from the Company Secretary.

A policy of insurance against directors' and officers' liabilities is maintained by the Company.

A procedure has been adopted for directors, in the furtherance of their duties, to take independent professional advice at the expense of the Company.

There were five full Board meetings during the year ended 31 December 2012. Mr Bernays, Mr Berry, Mrs Le Blan, Mr Niven and Mr Rickett attended all the meetings. In addition, there were two Board meetings to deal with the purchase of the Company's own shares and three Board sub-committee meetings to deal with the formal approval of documents.

Board Committees

The Board decides upon the membership and chairmanship of its committees.

Audit Committee

All of the directors except the Chairman of the Company are members of this committee. The Audit Committee meets formally at least twice a year for the purpose, amongst other things, of considering the appointment, independence and objectivity, and remuneration of the auditor and to review the annual accounts and half-yearly financial report. Where non-audit services are provided by the auditor, full consideration of the financial and other implications on the independence of the auditor arising from any such engagement are considered before proceeding. The Audit Committee has considered the non-audit work of the auditor this year and does not consider that this compromises its independence. Non-audit work consisted of tax assurance in preparing the Company's corporation tax return.

Mrs Le Blan is chairman of the Audit Committee. The Audit Committee has formal written terms of reference and copies of these are available on request from the Company Secretary. All members of the audit committee have recent and relevant financial experience. The Audit Committee has considered the need for an internal audit function and considers that this is not appropriate given the nature and circumstances of the Company.

Following a rotation during the year, the audit partner at Ernst & Young responsible for the audit is Julian Young.

There were two Audit Committee meetings during the year ended 31 December 2012. Mr Niven, Mr Berry, Mrs Le Blan and Mr Rickett attended both meetings.

Remuneration Committee

All of the directors are members of this committee. The Remuneration Committee has been established to meet formally on at least an annual basis to consider the fees of the non-executive directors and of other suppliers of services to the Company.

Corporate Governance continued

Mr Rickett is the chairman of the Remuneration Committee. The Remuneration Committee has formal terms of reference and copies of these are available on request from the Company Secretary.

A directors' remuneration report is included on page 20 of these financial statements.

There was one meeting of the Remuneration Committee during the year ended 31 December 2012. The meeting was attended by all the committee members.

Management Engagement Committee

All of the directors are members of this committee. The Management Engagement Committee has been established to conduct a formal annual review of the Manager assessing investment and other performance, the level and method of the Manager's remuneration and the continued appointment of the Manager as investment manager to the Company.

Mr Bernays is chairman of the Management Engagement Committee. The Management Engagement Committee has formal terms of reference and copies of these are available on request from the Company Secretary.

There was one meeting of the Management Engagement Committee during the year ended 31 December 2012. This meeting was attended by all of the committee members.

Nominations Committee

All of the directors are members of this committee. The Nominations Committee has been established for the purpose of identifying and putting forward candidates for the office of director of the Company. The Nominations Committee meets as and when required. The Nominations Committee considers job specifications and assesses whether candidates have the necessary skills and time available to devote to the job. The Company's policy is that the Board should have a broad range of skills and diversity.

Mr Bernays is chairman of the Nominations Committee. The Nominations Committee has formal terms of reference and copies of these are available on request from the Company Secretary.

There was one meeting of the Nominations Committee during the year ended 31 December 2012. The meeting was attended by all of the committee members. The Nominations Committee recommended the appointment of Mr John Scott to the Board of the Company following the year end.

Performance Appraisal

A formal annual performance appraisal process is performed on the Board, the committees, the individual directors and the Company's main service providers. The Board appraisal during the financial year was performed by a third party and is summarised below.

The external evaluation of the Board was completed in March 2012. The results of the evaluation demonstrated that the Board has a number of strengths and that the directors bring a broad range of skills to the Company. The Board believes that the external review has been beneficial and has provided the directors with useful feedback on how to further enhance Board effectiveness.

The Board does not believe it is necessary to conduct an external evaluation every year and the most recent evaluation completed in March 2013 was an internal appraisal. A programme consisting of open and closed ended questions was used as the basis for the appraisal. The results were reviewed by the Chairman and discussed with the Board. A separate appraisal of the Chairman was carried out by the senior independent director and the results reported back to the Chairman. The results of the most recent internal performance appraisal were positive and demonstrated that the directors showed the necessary commitment for the fulfilment of their duties.

Internal Control

The AIC Code requires the Board to review the effectiveness of the Company's system of internal controls. The Board recognises its ultimate responsibility for the Company's system of internal controls and for monitoring its effectiveness. The system of internal controls is designed to manage rather than eliminate the risk of failure to achieve business objectives. It can provide only reasonable assurance against material misstatement or loss. The Board has undertaken a review of the aspects covered by the guidance and has identified risk management controls in the key areas of business objectives, accounting, compliance, operations and secretarial as being matters of particular importance upon which it requires reports. The Board believes that the existing arrangements, set out below, represent an appropriate framework to meet the internal control requirements. By these procedures the directors have kept under review the effectiveness of the internal control system throughout the year and up to the date of this report.

The Board has contractually delegated to external agencies, the management of the investment portfolio, the custodial services (which include the safeguarding of the assets), the registration services and the accounting and company secretarial requirements. Each of these contracts was entered into after full and proper consideration of the quality and cost of services offered, including the financial control systems in operation in so far as they relate to the affairs of the Company.

Financial aspects of internal control

The directors are responsible for the internal financial control systems of the Company and for reviewing their effectiveness. These aim to ensure the maintenance of proper accounting records, the reliability of the financial information upon which business decisions are made and which is used for publication and that the assets of the Company are safeguarded. As stated above, the Board has contractually delegated to external agencies the services the Company requires, but they are fully informed of the internal control framework established by the Manager, the

Administrator and the Company's custodian to provide reasonable assurance on the effectiveness of internal financial controls.

The key procedures include monthly production of management accounts and NAV calculations, monitoring of performance at regular Board meetings, supervision by directors of the valuation of securities, segregation of the administrative function from that of securities and cash custody and of both from investment management, maintenance of appropriate insurance and adherence to physical and computer security procedures. In addition, the Board keeps under its own direct control all material payments out of the Company other than for investment purposes. Payment of management and administration fees is authorised only by directors after they have studied the financial data upon which those fees are based.

The Statement of Directors' Responsibilities in respect of the accounts is on page 21 and a Statement of Going Concern is on page 15. The Report of the Independent Auditors is on page 22.

Other aspects of internal control

The Board holds at least four regular meetings each year, plus additional meetings as required. Between these meetings there is regular contact with the Manager and the Company's secretary and administrator ("the Administrator").

The Manager reports in writing to the Board on operational and compliance issues prior to each meeting, and otherwise as necessary. The Manager reports directly to the Audit Committee concerning the internal controls applicable to the Manager's dealing, investment and general office procedures.

Directors receive and consider monthly reports from the Administrator, giving full details of all holdings in the portfolio and of all transactions and of all aspects of the financial position of the Company. The Administrator reports separately in writing to the Board concerning risks and internal control matters within its purview, including internal financial control procedures and secretarial matters. Additional ad hoc reports are received as required and directors have access at all times to the advice and services of the Corporate Company Secretary, which is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with.

This contact with the Manager and the Administrator enables the Board to monitor the Company's progress towards its objectives and encompasses an analysis of the risks involved. These matters are assessed on an ongoing basis through the year and again, formally, at year end.

Shareholder Relations

The Company welcomes all shareholders to attend the Annual General Meeting and seeks to provide twenty working days' notice of that meeting. The Notice of Meeting sets out the business of the AGM and any item not of an entirely routine nature is explained in the Directors' Report. Separate resolutions are proposed for each substantive issue. The Manager has a programme of meetings with shareholders and reports back to the Board on its findings. The Board also welcomes direct feedback from shareholders. The Chairman is available to meet shareholders and has met several during the course of the last year.

Exercise Of Voting Powers And Stewardship Code

The Company and the Manager believe that proxy voting is a key component in the ongoing dialogue with investee companies. As such, voting is an important aspect of the Manager's investment process. The Company and the Manager support the UK Stewardship Code issued by the Financial Reporting Council. The Manager has published its proxy voting policy and statement of compliance with the principles of best practice of the Stewardship Code on its website. The Board regularly reviews the voting decisions made by the Manager on the Company's behalf.

Social And Environmental Policy

The Company has no staff, premises, manufacturing or other operations. The Company invests in companies which contribute to the cleaner or more efficient delivery of basic services of energy, water and waste. The Manager's core expertise is within the environmental sector and the Manager takes a close interest in ensuring effective governance of investee companies. The Company and the Manager believe that a thorough understanding of environmental, social and governance issues is likely to enhance perspectives on both the opportunities and risks offered by individual investments. The Manager's detailed policy on environmental, social and governance issues can be found on its website (www.impaxam.com).

Directors' Remuneration Report

This report has been prepared in accordance with the requirements of the Companies Act 2006. An ordinary resolution for the approval of this report will be put forward at the forthcoming Annual General Meeting.

The law requires the Company's auditor to audit certain of the disclosures provided. Where disclosures are audited they are indicated as such. The auditor's opinion is included in its report on page 22.

Remuneration Committee

The Company currently has six non-executive directors.

During the year ended 31 December 2012, the fees payable to the directors were: £30,000 to the Chairman, £24,000 to the Chairman of the Audit Committee and £20,000 to the other directors. The Board believes that the current fee level is appropriate given the size of the Company and the responsibilities of the directors. The level of the fees payable has remained unchanged since March 2010.

The Remuneration Committee comprises the whole Board. Further detail on the duties of the Remuneration Committee can be found in the Corporate Governance statement on pages 17 and 18.

Policy On Directors' Fees

The Board's policy is that the remuneration of non-executive directors should be fair and should reflect the experience of the Board as a whole. The non-executive directors' fees are determined within the limits set out in the Company's Articles of Association and they are not eligible for bonuses, pension benefits, share benefits, share options, long-term incentive schemes or other benefits. It is intended that this policy will continue for the year ending 31 December 2013 and for subsequent years.

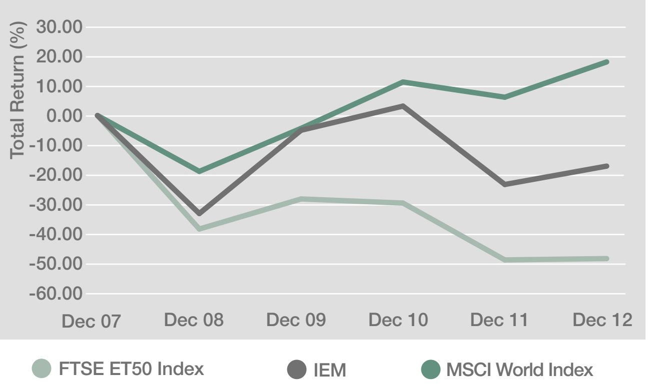
The maximum level of fees payable, in aggregate, to the directors of the Company is currently £150,000 per annum.

Directors' Service Contracts

The directors do not have service contracts with the Company and no director is entitled to compensation on loss of office. The directors have appointment letters which do not state any specific term. However, they are subject to re-election by shareholders at a maximum interval of three years. There are no restrictions on transfers of the Company's shares held by the directors or any special rights attached to such shares.

Performance

The following chart shows the performance of the Company's share price by comparison to the MSCI World Index (in sterling terms), both on a total return basis. The Company does not have a specific benchmark but has deemed the MSCI World Index to be the most appropriate comparator for this report.



Directors' Emoluments For The Year (Audited)

The directors who served during the year received the following emoluments in the form of fees.

	Fees 2,012 £'000	Fees 2,011 £'000
Richard Bernays	30	30
Keith Niven	22	24
Dr Robert Arnott (retired on 17 May 2012)	8	20
Bill Brown (retired on 11 May 2011)	–	7
Charles Berry	20	20
Julia Le Blan	22	18
William Rickett	20	18
	122	137

Mr Niven was Chairman of the Audit Committee until 17 May 2012 and Mrs Le Blan has been the Chair of the Audit Committee since that date.

By order of the Board
Anthony Lee
For and on behalf of
Cavendish Administration Limited
Company Secretary

3 April 2013

Statement of Directors' Responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable laws and regulations.

Company law requires the directors to prepare accounts for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom accounting standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company as at the end of the year and of the net return for the year. In preparing these accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates which are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the accounts comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The accounts are published on the www.impaxam.com website which is maintained by the Company's Manager, Impax Asset Management Limited ("IAM"). The maintenance and integrity of the website maintained by IAM is, so far as it relates to the Company, the responsibility of IAM. The work carried out by the auditors does not involve consideration of the maintenance and integrity of this website and, accordingly, the auditors accept no responsibility for any changes that have occurred to the accounts since they were initially presented on the website. The accounts are prepared in accordance with UK legislation, which may differ from legislation in other jurisdictions.

Statement under the Disclosure & Transparency Rules 4.1.12

The directors each confirm to the best of their knowledge that:

(a) the accounts, prepared in accordance with applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and

(b) this Annual Report includes a fair review of the development and performance of the business and position of the Company, together with a description of the principal risks and uncertainties that it faces.

For and on behalf of the Board
Julia Le Blan
Director

3 April 2013

Independent Auditor's Report

To the Members of Impax Environmental Markets Plc

We have audited the financial statements of Impax Environmental Markets Plc for the year ended 31 December 2012 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Reconciliation of Movements in Shareholders' Funds and the related notes 1 to 15. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 21, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual financial report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2012 and of its net return for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 15, in relation to going concern;
- the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to the shareholders by the Board on directors' remuneration.

Julian Young (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP
Statutory Auditor London
3 April 2013

Income Statement
For the year ended 31 December 2012

	Notes	2012 Revenue £'000	2012 Capital £'000	2012 Total £'000	2011 Revenue £'000	2011 Capital £'000	2011 Total £'000
Gains/(losses) on investments	11	–	22,153	22,153	–	(82,442)	(82,442)
Income	3	4,500	–	4,500	5,246	–	5,246
Investment management fees	4	(813)	(2,438)	(3,251)	(933)	(2,798)	(3,731)
Other expenses	4	(722)	–	(722)	(764)	–	(764)
Return on ordinary activities before taxation		2,965	19,715	22,680	3,549	(85,240)	(81,691)
Taxation	6	(328)	–	(328)	(413)	–	(413)
Return on ordinary activities after taxation		2,637	19,715	22,352	3,136	(85,240)	(82,104)
Return per ordinary share	7	0.93p	6.98p	7.91p	1.01p	(27.40p)	(26.39p)

The total column of the Income Statement is the profit and loss account of the Company. The revenue and capital columns contain supplementary information as recommended by the Association of Investment Companies SORP.

All revenue and capital items in the above statement derive from continuing operations. No operations were acquired or discontinued during the year.

A Statement of Total Recognised Gains and Losses has not been presented as all gains and losses are recognised in the Income Statement.

The notes on pages 27 to 35 form part of these accounts

Balance Sheet

At 31 December 2012

	Notes	2012 £'000	2011 £'000
Fixed assets			
Investments at fair value through profit and loss	9	334,680	342,213
Current assets			
Income receivable		283	244
Sales – future settlements		236	1,782
Taxation recoverable		170	106
Other debtors		18	32
Cash at bank and in hand		6,873	1,162
		7,580	3,326
Creditors: amounts falling due within one year			
Purchases – future settlements		(597)	(359)
Accrued liabilities		(450)	(429)
		(1,047)	(788)
Net current assets		6,533	2,538
Total net assets		341,213	344,751
Capital and reserves: equity			
Share capital	10	32,451	32,451
Share premium account		16,035	16,035
Share purchase reserve		235,598	258,875
Capital reserve	11	53,248	33,533
Revenue reserve		3,881	3,857
Shareholders' funds		341,213	344,751
Net assets per Ordinary Share	12	126.02p	116.97p

Approved by the Board of directors and authorised for issue on 3 April 2013 and signed on their behalf by:

Julia Le Blan
Director

Impax Environmental Markets plc is incorporated in England with registered number 4348393.

The notes on pages 27 to 35 form part of these accounts

Reconciliation of Movements in Shareholders' Funds

For the year ended 31 December 2012

	Share Capital £'000	Share Premium Account £'000	Share Purchase Reserve £'000	Capital Reserve £'000	Revenue Reserve £'000	Total £'000
Opening shareholders' funds as at 1 January 2012	32,451	16,035	258,875	33,533	3,857	344,751
Share buy backs	–	–	(23,277)	–	–	(23,277)
Dividend paid (May 2012)	–	–	–	–	(2,613)	(2,613)
Profit for the year	–	–	–	19,715	2,637	22,352
Closing shareholders' funds as at 31 December 2012	32,451	16,035	235,598	53,248	3,881	341,213

For the year ended 31 December 2011

	Share Capital £'000	Share Premium Account £'000	Share Purchase Reserve £'000	Capital Reserve £'000	Revenue Reserve £'000	Total £'000
Opening shareholders' funds as at 1 January 2011	32,451	16,035	283,016	118,773	3,090	453,365
Share buy backs	–	–	(24,141)	–	–	(24,141)
Dividend paid (May 2011)	–	–	–	–	(2,369)	(2,369)
Profit for the year	–	–	–	(85,240)	3,136	(82,104)
Closing shareholders' funds as at 31 December 2011	32,451	16,035	258,875	33,533	3,857	344,751

The notes on pages 27 to 35 form part of these accounts

Cash Flow Statement

For the year ended 31 December 2012

	Notes	2012 £'000	2011 £'000
Operating activities			
Cash inflow from investment income and bank interest		4,461	5,173
Cash outflow from management and other expenses		(3,930)	(4,529)
Cash inflow from disposal of investments		110,309	117,718
Cash outflow from purchase of investments		(78,731)	(104,924)
Cash outflow from foreign exchange costs		(103)	(49)
Cash outflow from taxation		(405)	(506)
Net cash flow from operating activities	13	31,601	12,883
Equity dividends paid	8	(2,613)	(2,369)
Financing			
Share buy backs		(23,277)	(24,141)
Net cash flow from financing		(23,277)	(24,141)
Increase/(decrease) in cash		5,711	(13,627)
Opening balance at 1 January		1,162	14,789
Balance at 31 December		6,873	1,162

The notes on pages 27 to 35 form part of these accounts

Notes to the Financial Statements

1. Accounting policies

The accounts have been prepared in accordance with applicable UK accounting standards. The particular accounting policies adopted are described below.

(a) Basis of Accounting
The accounts are prepared in accordance with UK Generally Accepted Accounting Practice ("UK GAAP") and the Statement of Recommended Practice "Financial statements of investment trust companies and venture capital trusts" ("SORP"), issued by the Association of Investment Companies in January 2009.

(b) Investments
Securities of companies quoted on regulated stock exchanges have been classified as "fair value through profit or loss" and are initially recognised on the trade date and measured at fair value. Investments are measured at subsequent reporting dates at fair value by reference to their market bid prices. Any unquoted investments are measured at fair value which is determined by the directors in accordance with the International Private Equity and Venture Capital guidelines.

Changes in fair value are included in the Income Statement as a capital item.

Transaction costs incurred on the acquisition and disposal of investments are charged to the Income Statement as a capital item.

(c) Income from Investments
Investment income from shares is accounted for on the basis of ex-dividend dates. Overseas income is grossed up at the appropriate rate of tax but UK dividend income is not grossed up for tax credits.

Special Dividends are assessed on their individual merits and may be credited to the Income Statement as a capital item if considered to be closely linked to reconstructions of the investee company or other capital transactions. All other investment income is credited to the Income Statement as a revenue item. Interest receivable is accrued on a time apportionment basis and reflects the effective interest rate.

(d) Capital Reserves
The Company is precluded by its articles from distributing its capital profit, except by way of redeeming or purchasing its own shares. Profits achieved in cash by selling investments and changes in fair value arising upon the revaluation of investments that remain in the portfolio are all charged to the capital column of the Income Statement and allocated to the capital reserve.

(e) Investment Management Fees
In accordance with the Company's stated policy and the directors' expectation of the split of future returns, three quarters of investment management fees, net of attributable tax, are charged as a capital item in the Income Statement. If applicable, tax relief in respect of costs allocated to capital is credited to capital via the capital column of the Income Statement on the marginal basis.

(f) Deferred Taxation
Provision is made for deferred taxation, using the liability method, on all timing differences to the extent that it is probable that a liability will crystallise. Deferred tax is recorded in accordance with FRS19 'Deferred tax'. Deferred tax is provided on all timing differences that have originated but not reversed by the balance sheet date. A deferred tax asset is only recognised to the extent that it is regarded as recoverable.

(g) Foreign currency translation
All transactions and income in foreign currencies are translated into sterling at the rates of exchange on the dates of such transactions or income recognition. Foreign currency assets and liabilities at the balance sheet date are translated into sterling at the rates of exchange at the balance sheet date. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the Income Statement as either a capital or revenue item depending on the nature of the gain or loss.

2. Investment company status

The Company is an investment company within the meaning of Section 833 of the Companies Act 2006.

Notes to the Financial Statements continued

3. Income

	2012 £'000	2011 £'000
Income from investments:		
Dividends from UK listed investments	813	632
Dividends from overseas listed investments	3,645	4,513
Loan note interest	42	101
Total income	4,500	5,246

4. Fees and expenses

	2012 Revenue £'000	2012 Capital £'000	2012 Total £'000	2011 Revenue £'000	2011 Capital £'000	2011 Total £'000
Investment management fees	813	2,438	3,251	933	2,798	3,731
Secretary and administrator fees	172	–	172	161	–	161
Custodian's fees	108	–	108	157	–	157
Directors' fees	122	–	122	137	–	137
Directors' other employment costs	13	–	13	18	–	18
Broker retainer	53	–	53	52	–	52
Auditors remuneration						
– for audit services	26	–	26	26	–	26
– for taxation	11	–	11	13	–	13
Association of Investment Companies	29	–	29	34	–	34
Registrar's fees	43	–	43	31	–	31
Marketing fees	35	–	35	28	–	28
Public relations fees	9	–	9	25	–	25
Legal fees	–	–	–	18	–	18
Consultant fees	16	–	16	–	–	–
Other expenses	85	–	85	64	–	64
	722	–	722	764	–	764
Total expenses	1,535	2,438	3,973	1,697	2,798	4,495

The main terms of the management agreement are summarised in the Directors' Report on page 14.

5. Directors' fees

During the year ended 31 December 2012, the fees payable to the directors were: £30,000 to the Chairman, £24,000 to the Chairman of the Audit Committee and £20,000 to the other directors. There were no other emoluments. Employers' National Insurance or VAT upon the fees is included as appropriate in directors' other employment costs under note 4.

6. Taxation

(a) Analysis of charge in the year:

	2012 Revenue £'000	2012 Capital £'000	2012 Total £'000	2011 Revenue £'000	2011 Capital £'000	2011 Total £'000
Overseas taxation	328	–	328	413	–	413
Taxation	328	–	328	413	–	413

(b) Factors affecting current tax charge for the year:

The current taxation charge for the year is lower than the standard rate of corporation tax in the UK of 24.49% applicable to the year ended 31 December 2012 (2011: 26.49%).

The differences are explained below:

	2012 £'000	2011 £'000
Total profit/(loss) before tax per accounts	22,680	(81,691)
Corporation tax at 24.49% (2011: 26.49%)	5,555	(21,640)
Effects of:		
Non–taxable UK dividend income	(199)	(167)
Non-taxable overseas dividend income	(893)	(1,195)
Movement in unutilised management expenses	963	1,163
(Gains)/losses on investments not taxable	(5,426)	21,839
Overseas tax	328	413
Total current tax charge for the year	328	413

Investment companies which have been approved by the HM Revenue & Customs under section 1158 of the Corporation Tax Act 2010 are exempt from tax on capital gains. Due to the Company's status as an Investment Trust, and the intention to continue meeting the conditions required to obtain approval in the foreseeable future, the Company has not provided for deferred tax on any capital gains or losses arising on the revaluation of investments.

(c) The Company has unrelieved excess management expenses of £19,377,000 (2011: £15,446,000). It is unlikely that the Company will generate sufficient taxable profits in the future to utilise these expenses and therefore no deferred tax asset has been recognised. The unrecognised deferred tax asset amounts to £4,650,000 (2011: £4,016,000).

7. Return per ordinary share

Return per share is based on the net gain on ordinary activities after taxation of £22,352,000 comprising a revenue return of £2,637,000 and a capital return of £19,715,000 (2011: loss of £82,104,000 comprising a revenue return of £3,136,000 and a capital loss of £85,240,000) attributable to the weighted average of 282,457,992 (2011: 311,170,086) Ordinary Shares of 10p in issue (excluding Treasury shares) during the year.

8. Dividends

	2012 £'000	2011 £'000
Dividends reflected in the financial statements:		
Final dividend paid for the year ended 31 December 2011 of 0.9p (2010: 0.75p)	2,613*	2,369
Dividends not reflected in the financial statements:		
Recommended ordinary dividend for the year ended 31 December 2012 of 0.9p (2011: 0.9p) per share	2,339	2,614

If approved at the Annual General Meeting, the dividend will be paid on 28 May 2013 to shareholders on the register as at the close of business on 26 April 2013.

* The difference between the recommended dividend for the year ended 31 December 2011 and the amount paid in 2012 was due to 4,419,000 Ordinary Shares being bought back following the date of approval of the Annual Report for the year ended 31 December 2011 but before the record date of the final dividend for that year.

Notes to the Financial Statements continued

9. Investments at fair value through profit and loss

	2012 £'000	2011 £'000
Analysis of closing balance:		
UK quoted securities	42,201	35,475
UK unquoted securities	3,227	5,306
Overseas securities	280,999	292,582
Overseas unquoted securities	8,253	8,850
Total investments	334,680	342,213
Movements during the year:		
Opening balance of investments, at cost	369,587	381,007
Additions, at cost	78,988	104,277
Disposals, at cost	(140,798)	(115,697)
Cost of investments at 31 December	307,777	369,587
Revaluation of investments to fair value:		
Opening balance of Capital reserve – investments held	(27,374)	58,759
Net movement	54,277	(86,133)
Balance of Capital reserve – investments held at 31 December	26,903	(27,374)
Fair value of investments at 31 December	334,680	342,213

During the year, the Company incurred transaction costs on purchases totalling in aggregate £154,000 (2011: £216,000) and on disposals totalling in aggregate £167,000 (2011: £180,000).

10. Share capital and warrants

At 31 December	Number	2012 £'000	Number	2011 £'000
Allotted, issued and fully paid				
Ordinary Shares of 10p	324,509,373	32,451	324,509,373	32,451

At the year end 53,738,625 (2011: 29,775,303) of the above Ordinary Shares were held in Treasury.

Ordinary Share buy backs

During the year, the Company bought back 23,963,322 (2011: 23,066,266) Ordinary Shares to be held in Treasury for an aggregate cost of £23,277,000 (2011: £24,141,000). Since the year end a further 10,882,000 Ordinary Shares have been bought back to be held in Treasury.

11. Capital reserve

Disposal of Investments

	2012 £'000	2011 £'000
Opening balance	60,907	60,014
Gains on disposal of investments	(32,036)	3,745
Net foreign exchange loss	(108)	(52)
Unquoted investment transaction gains (costs)	19	(2)
Investment management fees charged to capital	(2,438)	(2,798)
Balance at 31 December	26,344	60,907

Investments held

	2012 £'000	2011 £'000
Opening balance	(27,374)	58,759
Movement on valuation of investments held	54,278	(86,133)
Balance at 31 December	26,904	(27,374)
Capital reserve balance at 31 December	53,248	33,533

Gains/(losses) on investments in year (per Income Statement)

	2012 £'000	2011 £'000
Gains on disposal of investments	(32,017)	3,743
Net foreign exchange loss	(108)	(52)
Movement of valuation of investments held	54,278	(86,133)
Gains/(losses) on investments	22,153	(82,442)

12. Net assets per ordinary share

Net assets per Ordinary Share is based on net assets of £341,213,000 (2011: £344,751,000) divided by 270,770,748 (2011: 294,734,070) Ordinary Shares in issue (excluding shares held in Treasury) at the Balance Sheet date.

13. Cash flow statement

Reconciliation of net return on ordinary activities before finance costs and taxation to net cash flow from operating activities

	2012 £'000	2011 £'000
Return on ordinary activities before finance costs and taxation	22,680	(81,691)
Less: Tax deducted at source on income from investments	(328)	(413)
Add: Realisation of investments at book cost	140,799	115,698
Less: Purchase of investments	(78,988)	(104,277)
Adjustment for gain/(loss) on investments held	(54,278)	86,134
Foreign exchange non cash flow gain	5	1
Increase/(decrease) in debtors	1,438	(1,891)
Increase/(decrease) in creditors	273	(678)
Net cash flow from operating activities	31,601	12,883

14. Related party transactions

Details of the management contract can be found in the Directors' Report on page 14. Fees payable to the Manager are detailed in note 4 on page 28; the relevant amount outstanding as an accrual at the year end was £268,375 (2011: £270,462). The directors' fees are disclosed in note 5 and the Directors' Remuneration Report on page 20.

Notes to the Financial Statements continued

15. Financial risk management

The principal components of financial risk management cover the areas of market risks, credit risks, liquidity risks and capital management. Each risk and its management is summarised below.

Market Risks

The potential market risks are (i) currency risk, (ii) interest rate risk, and (iii) other price risk. Each is considered in turn below.

(i) Currency Risk

The Company invests in global equity markets and therefore is exposed to currency risks as it affects the value of the shares in the base currency. These currency exposures are not hedged. The Manager monitors currency exposure as part of its investment process. Currency exposures for the Company as at 31 December 2012 are detailed in the table at the end of this note.

Currency sensitivity

The below table shows the strengthening/(weakening) of local currencies against Sterling over the financial year for the Company's financial assets and liabilities held at 31 December 2012.

	% change[1]
Canadian Dollar	(2.4%)
Danish Krone	(3.1%)
Euro	(2.8%)
Hong Kong Dollar	(4.4%)
Japanese Yen	(15.1%)
Korean Won	4.1%
Norwegian Krone	2.7%
Swedish Krona	1.0%
Swiss Franc	(2.0%)
Taiwanese Dollar	(0.4%)
US Dollar	(4.5%)

[1]Percentage change against Sterling from 1 January 2012 to 31 December 2012

Based on the financial assets and liabilities at 31 December 2012 and all other things being equal, if the local currencies had strengthened or weakened against Sterling by the changes shown above, the impact on the profit after taxation for the year ended 31 December 2012 and the Company's net assets at 31 December 2012 would have been as follows:

	Potential effect £'000
Canadian Dollar	(256)
Danish Krone	(200)
Euro	(1,794)
Hong Kong Dollar	(660)
Japanese Yen	(2,715)
Korean Won	185
Norwegian Krone	170
Swedish Krona	88
Swiss Franc	(199)
Taiwanese Dollar	(17)
US Dollar	(6,865)
Total	(12,263)

(ii) Interest Rate Risk

The Company is typically fully invested in global equities but will from time to time hold interest bearing assets. These assets are cash balances that earn interest at a floating rate and UK Treasury Bills when large amounts of cash are held. The Company does not have interest bearing liabilities.

(iii) Other Price Risk

The principal price risk for the Company is the price volatility of shares that are owned by the Company. The Company is well diversified across different sub-sectors and geographies and has a volatility level similar to global stock market indices such as the MSCI World Index to which the Company has had an annualised tracking error of 10.4% over the ten year period to 31 December 2012. The historic 3-year (annualised) volatility of the Company to 31 December 2012 is 14.7%.

At the year end the Company held investments with an aggregate market value of £334,680,000. All other things being equal, the effect of a 10% increase or decrease in the fair value of the assets held at the year end would have been an increase or decrease of £33,468,000 in the profit after taxation for the year ended 31 December 2012 and the Company's net assets at 31 December 2012.

Overall Sensitivity

The Manager has used the value at risk ("VAR") methodology in UBS PAS (a proprietary investment banking model) to estimate the maximum expected loss from the portfolio held at 31 December 2012 over 1 day, 5 day, 10 day and 21 day time periods given the historical performance of the fund over the previous five years. The data in the previous five years is analysed under discrete periods to provide 1 in 10, 1 in 20 and 1 in 100 possible outcomes. The results of the analysis are shown below.

	Expected loss as percentage at limit		
	1 in 10 (90%)	1 in 20 (95%)	1 in 100 (99%)
1 day return	-1.0	-1.3	-1.8
5 day return	-2.3	-2.9	-4.1
10 day return	-3.2	-4.1	-5.8
21 day return	-4.7	-6.0	-8.4

The above analysis has been based on the following main assumptions:

- The distribution of share price returns will be the same in the future as they were in the past.
- The portfolio weightings will remain as they were at 31 December 2012.

The above results suggest, for example, that there is a 5% or less chance of the NAV falling by 2.9% or more over a 5 day period. Similarly, there is a 1% or less chance of the NAV falling by 1.8% or more on any given day.

Credit Risks

Cash at bank at 31 December 2012 included £6,565,000 (2011: £1,118,000) held at the Company's custodian, The Northern Trust Company. The Company also held £308,000 (2011: £44,000) at Lloyds TSB Bank plc. The Board has established guidelines that, under normal circumstances, the maximum level of cash to be held at any one bank should be the lower of i) 5% of the Company's net assets and ii) £15 million. These are guidelines and there may be instances when this amount is exceeded for short periods of time.

Credit risk arising on transactions with brokers relates to transactions awaiting settlement. Risk relating to unsettled transactions is considered to be low as trading is almost always done on a delivery versus payment basis.

There is credit risk on dividends receivable during the time between recognition of the income entitlement and actual receipt of dividend.

Substantially all of the assets of the Company are held by The Northern Trust Company (the "Custodian") or sub-custodians of the Custodian. Bankruptcy or insolvency of the Custodian or its sub-custodians may cause the Company's rights with respect to securities held by the Custodian to be delayed or limited. The Custodian segregates the Company's assets from its own assets and only uses sub-custodians on its approved list of sub-custodians. The Company's exposure to the Custodian amounts to £323.2 million in respect of quoted investments and £6.6 million in respect of cash.

The Company invests in broker issued participatory notes to provide economic exposure to underlying shares or securities when it is impracticable to invest directly in those shares or securities. The Company may be exposed to risk of loss in the event of default or insolvency of any counter-party used to acquire such investments. The Board has set a maximum limit for investment through participatory notes at 5% of net asset value, subject to a further limit of 2% per broker (both limits at time of investment).

Liquidity Risks

The Company invests in a range of global equities with different market capitalisations and liquidities and therefore needs to be conscious of liquidity risk. The Manager monitors the liquidity risk by carrying out a "Maturity Analysis" of the Company's listed equities based on the 20 Day Average Liquidities of each investment and assuming one third (33.3%) of the daily traded volume.

As shown in the quantitative analysis below, on 31 December 2012, 4.2% of the portfolio by value (excluding unquoted investments) might have taken more than three months to be realised.

Notes to the Financial Statements continued

Quantitative Disclosures

As described above, the Manager has carried out a maturity analysis of the Company's quoted investments at 31 December 2012 and the results for different time bands are reported as follows:

Percentage of portfolio by value that could be liquidated in one month	83.5%
Percentage of portfolio by value that could be liquidated in three months	95.8%
Percentage of portfolio by value that could be liquidated in one year	99.1%
Percentage of portfolio by value that could be liquidated in five years	100.0%

The Company may invest up to 10% of its net assets into pre-IPO investments which are possible candidates for flotation. At the year end the Company held investments in five unquoted companies with an aggregate total value of £11,480,000 (2011: £14,156,000); these investments have been valued at fair value at the year end.

Classification of financial instruments

FRS 29 requires that the classification of financial instruments be valued by reference to the source of inputs used to derive the fair value. The following classifications are used:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly; and
Level 3 – inputs for the asset or liability that are not based on observable market data.

The classification of the Company's investments held at fair value is detailed in the table below:

	2012 Level 1 £'000	2012 Level 2* £'000	2012 Level 3 £'000	2012 Total £'000	2011 Level 1 £'000	2011 Level 2* £'000	2011 Level 3 £'000	2011 Total £'000
Investments at fair value through profit and loss								
– Quoted	318,539	4,661	–	323,200	322,795	5,262	–	328,057
– Unquoted	–	–	11,480	11,480	–	–	14,156	14,156
	318,539	4,661	11,480	334,680	322,795	5,262	14,156	342,213

*Level 2 investments detailed above are holdings in quoted companies held through broker participatory notes. As at 31 December 2012 the Company held one investment, Thermax (India), through a participatory note.

The movement on the Level 3 classified investments during the year is shown below:

	2012 £'000	2011 £'000
Opening balance at 1 January	14 156	16,641
Additions during the year	153	1,365
Disposals during the year	(108)	–
Valuation adjustments	(2,721)	(3,850)
Closing balance at 31 December	11,480	14,156

Financial assets and liabilities

The Company's investments are mainly in securities of companies quoted on recognised stock exchanges. These investments are carried in the balance sheet at fair value by reference to their market bid prices. Any unquoted securities are measured at fair value which is determined by the directors in accordance with the International Private Equity and Venture Capital guidelines. All liabilities are included at fair value.

The Company's financial assets and liabilities at 31 December 2012 comprised:

	2012 Interest Bearing £'000	2012 Non-interest Bearing £'000	2012 Total £'000	2011 Interest Bearing £'000	2011 Non-interest Bearing £'000	2011 Total £'000
Investments						
Australian Dollar	–	–	–	–	5,915	5,915
Canadian Dollar	–	10,285	10,285	975	13,970	14,945
Danish Krone	–	6,302	6,302	–	8,317	8,317
Euro	–	63,352	63,352	–	55,929	55,929
Hong Kong Dollar	–	14,433	14,433	–	18,879	18,879
Hungarian Forint	–	–	–	–	355	355
Japanese Yen	–	15,235	15,235	–	17,818	17,818
Korean Won	–	4,741	4,741	–	–	–
Norwegian Krone	–	6,557	6,557	–	6,247	6,247
Sterling	–	45,429	45,429	–	41,065	41,065
Swedish Krona	–	8,779	8,779	–	12,313	12,313
Swiss Franc	–	9,738	9,738	–	8,079	8,079
Taiwanese Dollar	–	4,568	4,568	–	6,389	6,389
US Dollar	–	145,261	145,261	–	145,962	145,962
	–	334,680	334,680	975	341,238	342,213
Cash at bank						
Floating rate – £ sterling	6,873	–	6,873	1,162	–	1,162
Short term debtors	–	707	707	–	2,164	2,164
Short term creditors	–	(1,047)	(1,047)	–	(788)	(788)
	6,873	334,340	341,213	2,137	342,614	344,751

Capital management

The Company considers its capital to consist of Ordinary Shares of 10p each and its share capital and reserves.

At 31 December 2012 there were 324,509,373 Ordinary Shares in issue (of these shares 53,738,625 were held in Treasury).

The Company bought back 23,963,322 Ordinary Shares during the year.

The Company did not have any borrowings during the year. The Company's policy on borrowings is detailed in the Directors' Report.

The Manager and the Company's broker monitor the demand for the Company's shares and the directors review the position at Board meetings. Further details on share issues during the year and the Company's policies for issuing further shares and buying back shares can be found in the Directors' Report.

The Company has no externally imposed capital requirements.

Financial Record

As at 31 December	2002[1]	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Size of fund (£ millions)	27	33	38	107	224	393	305	394	453	345	341
Net asset value per Share[2]	54.4p	66.3p	76.7p	92.6p	110.6p	128.3p	99.6p	127.2p	142.7p	117.0p	126.0p
Share price	45.8p	55.5p	71.3p	94.0p	115.4p	128.9p	85.0p	119.1p	129.8p	95.8p	102.9p
Premium / (discount)[3]	(15.8%)	(16.3%)	(7.0%)	1.5%	4.3%	0.5%	(14.7%)	(6.4%)	(9.0%)	(18.1%)	(18.3%)

Year ending 31 December	2002[1]	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Net asset value return[4]	-44.6%	21.9%	15.7%	20.7%	19.4%	16.2%	-22.1%	28.4%	12.6%	-17.2%	8.5%
MSCI World Index[5]	-24.6%	19.7%	7.0%	22.4%	5.3%	7.2%	-17.9%	15.7%	15.3%	-4.8%	10.7%
MSCI World Small Cap[5]	-22.0%	41.9%	15.9%	29.4%	2.8%	-0.9%	-19.5%	28.3%	30.1%	-8.4%	12.4%
FTSE ET50 Index[5]	-40.7%	19.5%	6.1%	24.5%	19.7%	69.4%	-37.1%	15.2%	-2.2%	-27.4%	1.2%
Revenue return per Share	-0.0p	0.1p	0.1p	0.1p	0.2p	0.5p	0.9p	0.8p	0.8p	1.0p	0.9p
Dividends paid	–	–	–	–	–	0.2p	0.3p	0.85p	0.75p	0.75p	0.9p
Ongoing charges[6]	1.8%	2.1%	1.6%	1.6%	1.4%	1.3%	1.2%	1.1%	1.1%	1.1%	1.2%

Notes

1. The Company's Ordinary Shares ("Shares") were listed on the London Stock Exchange on 22 February 2002. Yearly figures for 2002 are based on the period from 22 February 2002 to 31 December 2002.
2. Net asset value per Share is measured on a diluted basis in years 2005 to 2010 when warrants were in issue. Warrants were issued in the year ended 31 December 2005 with a subscription price of 96p per Share. The final subscription date was 15 June 2010.
3. Share price premium/(discount) to net asset value
4. Total return (discrete annual returns)
5. Net total return for MSCI indices and total return for FTSE ET50 Index (discrete annual returns)
6. Total expense ratio up to and including 2011

Total returns to 31 December 2012

	NAV	Share price	MSCI World Index	MSCI World Small Cap Index	FTSE ET50 Index
1 year	8.5%	8.1%	10.7%	12.4%	1.2%
2 year	-10.5%	-19.5%	5.4%	3.0%	-26.5%
3 year	0.9%	-12.7%	21.5%	33.9%	-28.2%
4 year	29.8%	23.8%	40.6%	71.9%	-17.3%
5 year	1.0%	-17.1%	15.4%	38.3%	-47.9%
6 year	17.3%	-7.9%	23.7%	37.1%	-11.8%
7 year	40.1%	12.9%	30.3%	40.9%	5.6%
8 year	69.2%	48.9%	59.5%	82.3%	31.4%
9 year	95.7%	91.2%	70.7%	111.3%	39.4%
10 year	138.5%	131.9%	104.3%	199.9%	66.7%

Financial Calendar

Annual General Meeting

21 May 2013 at 2:30 p.m.
Norfolk House
31 St. James's Square
London SW1Y 4JR

Dividend

Record date: 26 April 2013
Payment date: 28 May 2013
Amount: 0.9p per Ordinary Share

Directors, Manager and Advisers

Directors
Richard Bernays (Chairman)
Charles Berry
Julia Le Blan
Keith Niven
William Rickett, CB
John Scott (appointed 7 February 2013)

Brokers
Canaccord Genuity Limited
9th Floor, 88 Wood Street
London EC2V 7QR

Banker
Lloyds TSB Bank plc
Moorgate Branch
34 Moorgate
London EC2R 6PL

Registrars
Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Custodian
The Northern Trust Company
50 Bank Street
Canary Wharf
London E14 5NT

Investment Manager
Impax Asset Management Limited
Norfolk House
31 St James's Square
London SW1Y 4JR

Registered Office*
145-157 St John Street
London EC1V 4RU

Secretary & Administrator
Cavendish Administration Limited
145-157 St John Street
London EC1V 4RU

Auditors
Ernst & Young LLP
1 More London Place
London
SE1 2AF

* Registered in England no. 4348393

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Impax Environmental Markets plc will be held at Norfolk House, 31 St. James's Square, London SW1Y 4JR on 21 May 2013 at 2:30 p.m. for the following purposes:

To consider and if thought fit pass the following resolutions of which resolutions 1 to 11 will be proposed as ordinary resolutions and resolutions 12 to 15 will be proposed as special resolutions.

1. To receive the Company's annual accounts for the year ended 31 December 2012, with the reports of the directors and auditors thereon.

2. To approve the directors' remuneration report included in the financial statements.

3. To re-elect Richard Bernays as a director of the Company.

4. To re-elect Julia Le Blan as a director of the Company.

5. To re-elect William Rickett as a director of the Company.

6. To elect John Scott as a director of the Company.

7. That the Company continue as an investment trust for a further three years until the Annual General Meeting of the Company in 2016.

8. To reappoint Ernst & Young LLP as auditors to the Company.

9. To authorise the directors to fix the remuneration of the auditors until the conclusion of the next Annual General Meeting of the Company.

10. To declare a final dividend of 0.9p per Ordinary Share of the Company in respect of the year ended 31 December 2012.

11. That the directors be and are hereby generally and unconditionally authorised (in substitution for all subsisting authorities to the extent unused) to exercise all powers of the Company to allot relevant securities (as defined in section 551 of the Companies Act 2006) up to an aggregate nominal amount equal to £2,596,288 PROVIDED THAT the directors may not allot relevant securities of an aggregate nominal amount more than 9.99% of the nominal value of the issued share capital (excluding Treasury Shares) at the date of the Annual General Meeting and that this authority shall expire (unless previously varied, revoked or renewed by the Company in general meeting) at the conclusion of the Annual General Meeting of the Company to be held in 2014 or, if earlier, on the expiry of 15 months from the passing of this resolution (the "section 551 period") but so that the directors may, at any time prior to the expiry of the section 551 period, make an offer or agreement which would or might require relevant securities to be allotted after the expiry of the section 551 period and the directors may allot relevant securities in the pursuance of such an offer or agreement as if the authority granted by this resolution had not expired.

12. That the Company be and is hereby generally and unconditionally authorised in accordance with section 701 of the Companies Act 2006 ("the Act") to make market purchases (within the meaning of section 693(4) of the Act) of its Ordinary Shares of 10p each, provided that:

    (a) the maximum number of Ordinary Shares hereby authorised to be purchased shall be 38,957,323 (representing 14.99 per cent of the Company's issued Ordinary Share capital (excluding shares held in Treasury) at the date of the notice of this meeting);

    (b) the minimum price (exclusive of any expenses) which may be paid for an Ordinary Share is 10p;

    (c) the maximum price (excluding expenses) which may be paid for an Ordinary Share is not more than the higher of (i) 5 per cent above the average of the middle market quotations for the Ordinary Shares for the five business days immediately before the day on which it purchases that share and (ii) the price stipulated by Article 5(1) of the Buy-back and Stabilisation Regulation (EC 2273/2003);

    (d) the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company in 2014 or, if earlier, on the expiry of 15 months from the passing of this resolution, unless such authority is renewed prior to such time; and

(e) the Company may make a contract to purchase Ordinary Shares under the authority hereby conferred prior to the expiry of such authority, which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of Ordinary Shares pursuant to any such contract.

13. That, subject to the passing of resolution 11, in substitution for any existing power under section 570 of the Companies Act 2006 but without prejudice to the exercise of any such power prior to the date hereof, the directors be and are hereby empowered, pursuant to section 570 of that Act, to allot and make offers or agreements to allot equity securities (as defined in section 560 of that Act) and/or sell equity securities held as Treasury shares pursuant to section 573 of that Act, in each case for cash pursuant to the authority and for the period of the authority conferred by resolution 11 up to an aggregate nominal amount of £2,596,288 as if section 561(1) of that Act did not apply to such allotment (subject to a maximum of 9.99 per cent. of the aggregate nominal value of the issued share capital at the date of this resolution).

14. That a general meeting of the Company other than an Annual General Meeting may be called on not less than 14 clear days' notice, provided that this authority shall expire at the conclusion of the Company's next Annual General Meeting after the date of the passing of this resolution.

15. That the following sentence be deleted from Article 134.5 of the Company's Articles of Association:
"No part of the capital reserve shall be available for distribution as dividend (within the meaning of section 842 of the Income and Corporation Taxes Act 1988) or for distribution (within the meaning of section 829 of the Companies Act 2006)."

By order of the Board
Anthony Lee
For and on behalf of
Cavendish Administration Limited
Company Secretary
3 April 2013

Registered Office:
145-157 St John Street
London EC1V 4RU

Notes to Notice of Annual General Meeting

Website address

1. Information regarding the meeting, including the information required by section 311A of the Companies Act 2006, is available from www.impaxam.com

Entitlement to attend and vote

2. Only those holders of Ordinary Shares registered on the Company's register of members at 6:00 p.m. on 15 May 2013; or, if this meeting is adjourned, at 6:00 p.m. on the day two days prior to the adjourned meeting, shall be entitled to attend and vote at the meeting.

Appointment of Proxies

3. Members entitled to attend, speak and vote at the meeting (in accordance with Note 2 above) are entitled to appoint one or more proxies to attend, speak and vote in their place. If you wish to appoint a proxy please use the Form of Proxy enclosed with this document or follow the instructions at note 7 below if you wish to appoint a proxy through the CREST electronic proxy appointment service. In the case of joint members, only one need sign the Form of Proxy. The vote of the senior joint member will be accepted to the exclusion of the votes of the other joint members. For this purpose, seniority will be determined by the order in which the names of the members appear in the register of members in respect of the joint shareholding. The completion and return of the Form of Proxy will not stop you attending and voting in person at the meeting should you wish to do so. A proxy need not be a member of the Company. You may appoint more than one proxy provided each proxy is appointed to exercise the rights attached to a different share or shares held by you. If you choose to appoint multiple proxies use a separate copy of this form (which you may photocopy) for each proxy, and indicate after the proxy's name the number of shares in relation to which they are authorised to act (which, in aggregate, should not exceed the number of Ordinary Shares held by you). Please also indicate if the proxy instruction is one of multiple instructions being given. All forms must be signed and returned in the same envelope.

4. You can appoint the Chairman of the Meeting, or any other person, as your proxy. If you wish to appoint someone other than the Chairman, cross out the words "the Chairman of the Meeting" on the Form of Proxy and insert the full name of your appointee.

5. You can instruct your proxy how to vote on each resolution by ticking the "For" and "Against" boxes as appropriate (or entering the number of shares which you are entitled to vote). If you wish to abstain from voting on any resolution please tick the box which is marked "Vote Withheld". It should be noted that a vote withheld is not a vote in law and will not be counted in the calculation of the proportion of votes "For" and "Against" a resolution. If you do not indicate on the Form of Proxy how your proxy should vote, he/she can exercise his/her discretion as to whether, and if how so how, he/she votes on each resolution, as he/she will do in respect of any other business (including amendments to resolutions) which may properly be conducted at the meeting.

   A company incorporated in England and Wales or Northern Ireland should execute the Form of Proxy under its common seal or otherwise in accordance with Section 44 of the Companies Act 2006 or by signature on its behalf by a duly authorised officer or attorney whose power of attorney or other authority should be enclosed with the Form of Proxy.

Appointment of Proxy using Hard Copy Form

6. The Form of Proxy and any power of attorney (or a notarially certified copy or office copy thereof) under which it is executed must be received by Capita Registrars, PXS, 34 Beckenham Road, Beckenham, BR3 4TU at 2:30 p.m. on 15 May 2013 in respect of the meeting. Any Forms of Proxy received before such time will be deemed to have been received at such time. In the case of an adjournment, the Form of Proxy must be received by Capita Registrars no later than 48 hours before the rescheduled meeting.

   On completing the Form of Proxy, sign it and return it to Capita Registrars at the address shown on the Form of Proxy in the envelope provided. As postage has been pre-paid no stamp is required.

Appointment of Proxy through CREST

7. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the meeting to be held on the above date and any adjournment(s) thereof by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

   In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the Company's agent (ID: RA10) by the latest time(s) for receipt of proxy appointments specified in the notice of meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to a proxy's appointee through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

All messages relating to the appointment of a proxy or an instruction to a previously appointed proxy, which are to be transmitted through CREST, must be lodged at 2:30 p.m. on 15 May 2013 in respect of the meeting. Any such messages received before such time will be deemed to have been received at such time. In the case of an adjournment, all messages must be lodged with Capita Registrars no later than 48 hours before the rescheduled meeting.

Termination of proxy appointments

8. In order to revoke a proxy instruction you will need to inform the Company. Please send a signed hard copy notice clearly stating your intention to revoke your proxy appointment to Capita Registrars, PXS, 34 Beckenham Road, Beckenham, BR3 4TU.

   In the case of a member which is a company, the revocation notice must be executed under its common seal or otherwise in accordance with section 44 of the Companies Act 2006 or by signature on its behalf by an officer or attorney whose power of attorney or other authority should be included with the revocation notice.

   If you attempt to revoke your proxy appointment but the revocation is received after the time specified in note 2 above then, subject to the paragraph directly below, your proxy will remain valid.

   Completion of a Form of Proxy will not preclude a member from attending and voting in person. If you have appointed a proxy and attend the meeting in person, your proxy appointment will be automatically terminated.

   If you submit more than one valid proxy appointment in respect of the same Ordinary Shares, the appointment received last before the latest time for receipt of proxies will take precedence.

Nominated Persons

9. If you are a person who has been nominated under section 146 of the Companies Act 2006 to enjoy information rights:
   - You may have a right under an agreement between you and the member of the Company who has nominated you to have information rights (Relevant Member) to be appointed or to have someone else appointed as a proxy for the meeting.
   - If you either do not have such a right or if you have such a right but do not wish to exercise it, you may have a right under an agreement between you and the Relevant Member to give instructions to the Relevant Member as to the exercise of voting rights.
   - Your main point of contact in terms of your investment in the Company remains the Relevant Member (or, perhaps, your custodian or broker) and you should continue to contact them (and not the Company) regarding any changes or queries relating to your personal details and your interest in the Company (including any administrative matters). The only exception to this is where the Company expressly requests a response from you.

   If you are not a member of the Company but you have been nominated by a member of the Company to enjoy information rights, you do not have a right to appoint any proxies under the procedures set out in the notes to the form of proxy.

Notes to Notice of Annual General Meeting continued

Questions at the Meeting

10. Under section 319A of the Companies Act 2006, the Company must answer any question you ask relating to the business being dealt with at the meeting unless:

    - answering the question would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information;
    - the answer has already been given on a website in the form of an answer to a question; or
    - it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

Issued Shares and total voting rights

11. The total number of shares in issue in the Company is 324,509,373 Ordinary Shares of 10p each. Of these 64,620,625 are held in Treasury. Therefore the total number of Ordinary Shares with voting rights is 259,888,748. On a vote by a show of hands, every holder of Ordinary Shares who (being an individual) is present by a person, by proxy or (being a corporation) is present by a duly authorised representative, not being himself a member, shall have one vote. On a poll every holder of Ordinary Shares who is present in person or by proxy shall have one vote for every Ordinary Share held by him.

Communication

12. Except as provided above, members who have general queries about the meeting should use the following means of communication (no other methods of communication will be accepted):

    - calling Capita Registrar's shareholder helpline (lines are open from 8:30 a.m. to 5:30 p.m. Monday to Friday, excluding public holidays):

    (i) From UK: 0871 664 0300 (calls cost 10p per minute plus network extras);

    (ii) From Overseas: +44 208 639 3399 (calls from outside the UK are charged at applicable international rates); or

    - in writing to Capita Registrars.

    You may not use any electronic address provided either in this notice of meeting or in any related documents (including the Form of Proxy for this meeting) to communicate with the Company for any purposes other than those expressly stated.

Form of Proxy

Impax Environmental Markets plc

I/We

of

(BLOCK CAPITALS PLEASE)

being (a) member(s) of Impax Environmental Markets plc appoint the Chairman of the meeting, or (see note 1)

of

as my/our proxy and, on a poll, to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held at Norfolk House, 31 St. James Square, London SW1Y 4JR on 21 May 2013 at 2:30 p.m. and any adjournment thereof.

Please indicate with an 'X' in the spaces provided how you wish your votes to be cast on the resolutions specified.

Resolution	For	Against	Withheld	Discretionary
1. To receive and adopt the Directors' report, the annual accounts and the Auditor's Report for the year ended 31 December 2012.				
2. To approve the Directors' Remuneration Report.				
3. To re-elect Richard Bernays as a Director.				
4. To re-elect Julia Le Blan as a Director.				
5. To re-elect William Rickett as a director.				
6. To elect John Scott as a director.				
7. That the company continue as an investment trust for a further three years until the Annual General Meeting in 2016.				
8. To reappoint Ernst & Young LLP as auditors to the Company.				
9. To authorise the directors to fix the remuneration of the auditors.				
10. To declare a final dividend of 0.9p per Ordinary Share.				
11. To give authority to allot new shares.				
12. To give authority for the Company to purchase its own shares.				
13. To give authority to allot new shares free from pre-emption rights.				
14. To authorise calling general meetings (other than Annual General Meetings) on 14 clear days' notice.				
15. To amend Article 134.5 of the Company's Articles of Association				

Subject to any voting instructions so given the proxy will vote, or may abstain from voting, on any resolution as he may think fit.

Signature Dated this day of 2013

Notes
1. If any other proxy is preferred, strike out the words "Chairman of the Meeting" and add the name and address of the proxy you wish to appoint and initial the alteration. The proxy need not be a member.
2. If the appointer is a corporation this form must be completed under its common seal or under the hand of some officer or attorney duly authorised in writing.
3. A vote withheld is not a vote in law and will not be counted in the calculation of the proportion of the votes for or against a resolution.
4. The signature of any one of joint holders will be sufficient, but the names of all the joint holders should be stated.
5. To appoint more than one proxy you may photocopy this form. Please indicate the proxy holder's name and the number of shares in relation to which they are authorised to act as your proxy (which, in aggregate, should not exceed the number of shares held by you). Please also indicate if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope.
6. To be valid, this form and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power must reach the registrars of the Company Capita Registrars, PXS, 34 Beckenham Road, Beckenham, BR3 4TU not less than forty-eight hours before the time appointed for holding the General Meeting or adjournment as the case may be.
7. The completion of this form will not preclude a member from attending the Meeting and voting in person.
8. Any alteration of this form must be initialled.

Please re-print the reply-paid address to Capita Registrars

Impax Environmental Markets plc
Annual Report and Accounts 2012